

European Central Bank: Press conference - introductory statement

Introductory statement by Mr Jean-Claude Trichet, President of the European Central Bank, and Mr Lucas Papademos, Vice-President of the European Central Bank, at the press conference held in Frankfurt, 8 January 2004.

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Ladies and gentlemen, welcome to the first press conference of 2004. Let me express the Vice-President's and my own best wishes to you all for the New Year. We will now report on the outcome of today's meeting of the Governing Council of the ECB, which was also attended by the President of the ECOFIN Council, Mr McCreevy, and Commissioner Solbes.

Following our regular economic and monetary analysis, we continue to judge the current stance of monetary policy as appropriate to preserve price stability over the medium term. Accordingly, we have decided to leave the **key ECB interest rates** unchanged at their low levels. The available indicators point to an ongoing economic recovery in the euro area. This assessment has not fundamentally changed. Although recent exchange rate developments are likely to have some dampening effects on exports, export growth should continue to benefit from the dynamic expansion of the world economy. Import price developments in the euro area should become somewhat more favourable, thereby helping to contain inflationary risks. We will continue to carefully monitor all developments that could affect our assessment of risks to price stability over the medium term.

Let me now explain our decision in more detail.

Starting with the **economic analysis**, recently available indicators confirm that world economic growth is progressing. For the euro area too, the latest information on production and confidence is consistent with an ongoing recovery in economic activity, and the momentum for growth should strengthen in the course of 2004. This assessment is supported by all available forecasts from official and private sources, as well as by developments in the financial markets.

On the external side, recent exchange rate developments are having a negative impact on the price competitiveness of euro area exporters, but thus far this should be partly compensated for by the ongoing expansion of global demand. Overall, euro area exports should therefore continue to grow. On the domestic side, investment growth should benefit from the ongoing adjustment efforts of firms to enhance productivity and profitability, as well as from the low level of interest rates and generally favourable financing conditions. Private consumption should receive support from real disposable income growth, partly due to favourable effects on terms of trade and inflation stemming from the past appreciation of the euro.

The short-term risks to this outlook remain balanced. Over longer horizons, the uncertainties continue to be related to persistent external imbalances in some regions of the world and their potential repercussions on the sustainability of global economic growth. This is a challenge to be addressed by sustainable macroeconomic policies and structural reforms which foster a sound balance between savings and investment in all major partner countries, enhance the production potential in the euro area and support a further expansion in trade of goods and services at the global level.

With regard to price developments, HICP inflation rates over the short term are still expected to fluctuate around the 2% level, following a rate of 2.1% in December, according to Eurostat's flash estimate. As I have explained on previous occasions, adverse food price developments, the evolution of oil prices and increases in indirect taxes and administered prices have all adversely affected the short-term outlook for inflation.

However, in the course of this year we expect inflation rates to fall and to remain in line with price stability thereafter. This expectation is based on the assumption that wage developments will remain moderate in the context of a gradual economic recovery. Moreover, the past appreciation of the euro should dampen price pressures. These views are also reflected in the available forecasts and projections. We are, of course, fully aware of the conditional nature of these forward-looking exercises and therefore bear in mind all elements of risk to the outlook for price stability. In the same vein, we continue to closely monitor inflation expectations.

Turning to the **monetary analysis**, the strong monetary growth of the last few years means that there is significantly more liquidity available in the euro area than needed to finance non-inflationary growth.

At the same time, the growth of loans to the private sector has been rising over recent months, benefiting from the low level of interest rates and the general improvement in the economic environment.

In our view, the accumulation of excess liquidity should not be of concern for price stability as long as the economic recovery is gradual. However, should excess liquidity remain high once there is a significant strengthening of economic activity, it could lead to inflationary pressures over the medium term. We will therefore carefully examine monetary developments as they unfold.

In summary, the economic analysis continues to indicate that the main scenario for price developments in the medium term is in line with price stability. This picture is confirmed by **cross-checking** with the monetary analysis.

Concerning **fiscal policies**, 2004 will be a crucial year for strengthening the credibility of the institutional framework and confidence in the soundness of public finances of Member States across the euro area. Together with the Treaty provisions, the overall fiscal framework of the Stability and Growth Pact remains of central importance and must be fully respected. These are the foundations for trust and confidence in EMU. They are key not only to stability but also to growth, and are a precondition for preserving low risk premia in financial markets. We therefore strongly urge governments and the ECOFIN Council to live up to their responsibilities and to the commitments they made last November.

Finally, the Governing Council strongly supports ongoing efforts by a number of governments to proceed with **structural reforms** - in the fiscal domain, and in labour and product markets. Building on what has already been implemented, further reforms are required to make the euro area economy more flexible, to allow a better allocation and utilisation of capital and human resources, and to enhance the euro area's growth potential. The process of structural reform would be greatly enhanced if social partners were to fully commit themselves to the objective of making the euro area a more dynamic, innovative and competitive economy. Such common efforts should help to better communicate to the public the benefits of effectively responding to the main challenges of the euro area: bringing down the high level of structural unemployment, enhancing the production potential, increasing productivity, reducing the inefficiencies of the tax system as well as preparing the health and pension systems for the ageing of the population.

We are now at your disposal for questions.