INTRODUCTORY STATEMENT

Delivered by

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It is my pleasure to continue today our ongoing dialogue on monetary policy, the overall economic situation and other activities of the Eurosystem. Since our previous hearing in November, the European economic outlook has brightened further, while, at the same time, the balance of risks to price stability has shifted upwards owing, in particular, to external factors. Against this background, the decisions of the Governing Council of the ECB to raise interest rates in early February and last week, as well as the reasoning behind these steps, are at the centre of my presentation today. Moreover, I should like to touch upon the overall European economic environment. Finally, I shall briefly turn to some other activities of the Eurosystem which might be of particular interest to you.

1. Current economic developments and prospects

As you are aware, the Governing Council of the ECB decided on 3 February and 16 March 2000 to increase the three main ECB interest rates. These two decisions followed the interest rate decision taken on 4 November 1999. Whereas the interest rates were increased by 50 basis points in November 1999, on the past two occasions the main refinancing rate and the rates on the marginal lending facility and on the deposit facility were each increased by 25 basis points, so that they now stand at 3.50%, 4.50% and 2.50% respectively. All three decisions were taken in the context of the monetary policy strategy of the Eurosystem to address upside risks to future price stability in the euro area.

Both pillars of the monetary policy strategy indicated that the balance of risks to price stability in the medium term had been shifting upward in late 1999 and

early 2000. Starting with monetary developments in the context of the first pillar, the three-month average of annual M3 growth exceeded the reference value throughout 1999 and in January 2000. Together with the continued strong expansion, at annual rates of around 10%, of credit granted to the private sector, this signalled that liquidity in the euro area is ample, contributing to upside risks to price stability in the medium term.

In the context of the first pillar, let me briefly take up the issue of the reference value for monetary growth. As you know, the reference value is an expression of the prominent role of money in the first pillar of the monetary policy strategy of the Eurosystem. Following its meeting on 2 December 1999, the Governing Council confirmed the reference value for the growth of the broad monetary aggregate M3 at 4½% per annum. This decision was taken on the grounds that the main elements which entered the determination of the reference value, namely the definition of price stability, the estimate of the trend growth of real GDP and the trend decline in the income velocity of M3, had basically remained unchanged. The Governing Council will continue to monitor monetary developments against the reference value on the basis of three-month moving averages of the annual growth rate of M3 as monthly developments might be too volatile. In addition, we also noted that the generous liquidity situation in 1999 will have to be kept in mind when assessing the information content of monetary developments in the future.

Considering the second pillar of the monetary policy strategy, namely the broadly based assessment of other indicators containing information about the outlook for price stability, most indicators and forecasts have been pointing to increasing

upward pressure on consumer price inflation over the medium term. The strong increase in oil prices in 1999 and early 2000 and the depreciation of the exchange rate of the euro in recent months have contributed to upward pressures on import and producer prices. In addition to the direct effects of these pressures on consumer price inflation, there is the risk in the context of the strong cyclical upswing that these developments could, via second-round effects, have lasting effects on consumer price inflation.

All three of the interest rate measures taken over the last few months indicate the Eurosystem's continued determination to counter the emerging upside risks to price stability in a timely and pre-emptive manner. It is our strong conviction that we can thereby maintain a non-inflationary environment, which is a prerequisite for making the economic upswing in the euro area sustainable.

Currently, the prospects for strong economic growth in the euro area are very favourable. We are very much satisfied by the fact that economic activity is now expected to grow more strongly than anticipated earlier. In fact, most forecasts suggest that euro area real GDP growth will be above 3% in 2000 and 2001, reflecting both the favourable external environment and buoyant domestic demand. These expectations have just been underpinned by the first estimate by EUROSTAT of real GDP growth in the fourth quarter of 1999, which indicated that economic activity continued to expand at a robust pace at the end of last year. Surveys of consumer and industrial confidence conducted by the European Commission in early 2000 indicate that the positive development of economic activity should have continued in the first months of this year. Financial markets

also expect a prolonged phase of economic expansion, as can be inferred from the fact that the yield curve has remained relatively steep.

In this environment, employment is expected to increase further and the still very high level of unemployment should continue to fall. To date, wage growth has been moderate and the same applies for actual wage settlements to date. It remains important that the expected improvements in economic conditions and labour market prospects are not jeopardised by inappropriate wage settlements. In fact, wage moderation would help both to contain inflation in the euro area and lead to further progress in employment creation. Wage negotiators can be assured that the primary objective of the Eurosystem is the maintenance of price stability in the medium term and that we are fully committed to this objective. The temporary increases in the 12-month rate of consumer price inflation which we are currently observing as a result of the oil price developments should not be reason for higher wage demands.

There is now a broad consensus, also at the level of governments, that the currently favourable prospects for output growth in the euro area would be enhanced by a deepening of the structural reform process in the euro area. Governments of the euro area have already taken important initiatives, but the high level of unemployment in many countries shows that there is still much to be done.

In this respect, fiscal policies can also make a substantial contribution to maintaining favourable economic conditions by using the current upswing as an excellent opportunity to proceed swiftly towards fulfilling the objectives of the Stability and Growth Pact. Governments should continue the process of fiscal

consolidation which was observed in the run-up to Stage Three with ambition. Aiming at positions of budget surplus and reducing debt to GDP ratios should free resources, which could be used by the private sector to finance new initiatives to create employment.

I am confident that the first decade of the new millennium could, if all parties concerned take their responsibilities very seriously, mark the beginning of a prolonged period of price stability, growth and employment creation. Inflation rates are currently among the lowest levels observed after the war, and we are determined to maintain this very substantial achievement. Fiscal policies have already made good progress in correcting the serious mistakes of the 1980s and early 1990s and they are encouraged to continue on the path of fiscal consolidation. These favourable conditions for a period of growth are clearly better now than at any time over the last ten years and this should both foster and facilitate structural reforms.

2. Other activities of the Eurosystem

From among the other activities of the Eurosystem over the last few months, I should like only briefly to report on a few specific issues, which might be of particular interest to you.

At present, the ECB is preparing this year's Convergence Report. As you will be aware, the Treaty requires the ECB and the Commission to present such a report at least every two years. The purpose of these reports is to examine the progress made by non-euro area Member States in the fulfilment of their obligations with regard to the achievement of economic and monetary union. This year's Convergence Report will cover Greece and Sweden. For Denmark and the United Kingdom, which have a special status, the convergence examination is only to be carried out at their explicit request. However, no such request has been made. According to our current planning, the Convergence Report is to be published on 3 May.

In this context, I should also like to take the opportunity to confirm that, as envisaged, the ECB will present its Annual Report for 1999 on 12 April, to be discussed in your Committee on 17 April 2000.

EU enlargement is another area in which the ECB has assumed an increasingly active role. Even though the ECB is not an official party to the accession negotiations, it goes without saying that the Eurosystem's views in its areas of competence should be properly taken into account. This applies, in particular, to

the provisions needed to guarantee central bank independence, the liberalisation of capital movements, sound banking systems and overall financial stability.

Against this background, the ECB is closely monitoring the EU enlargement process, which has implications – already at this stage – for economic and monetary developments in accession countries. Moreover, the ECB has, following the Helsinki seminar of last November, further intensified its bilateral and multilateral contacts with central banks from accession countries. A network of seminars and fora has been set up, in which practical advice and information are provided at expert level with regard to the adjustments required for EU membership in EMU-related areas of legislation, statistics and payment systems. Moreover, the Eurosystem provides technical assistance in all relevant areas of central banking. These activities are likely to be developed further and should make it easier for the accession countries to carefully prepare for the adoption of the *acquis communautaire*, which is indispensable for the successful enlargement of the European Union.

Finally, I should like briefly to touch upon the status of preparations for the Eurosystem's information campaign on euro banknotes and coins. As I already mentioned during our previous dialogue, this campaign is designed to allow European citizens to familiarise themselves with the new banknotes and coins at an early stage. The campaign is also directed towards people in other countries, albeit to a lesser degree. Its main focus will be on the visual appearance of the euro banknotes and coins, their security features, their denominations and the changeover modalities. Special attention will be paid to the needs of vulnerable citizens. In the meantime, the preparatory work on the information campaign has

progressed further and should, according to our current planning, be finalised in April. It goes without saying that the ECB would appreciate the opportunity to present the main features of the campaign to your Committee in due course.