European Central Bank ECB. 1999 report

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PURPOSE: presentation of the European Central Bank's Annual Report for 1999. CONTENT: the European Central Bank's annual report is the first to cover a full year Eurosystem monetary policy. It also deals with the other activities of the Eurosystem and the European System of Central Banks. Looking back on the first year of the euro, there are some grounds for satisfaction. The single monetary policy started under reasonably favourable conditions. The Eurosystem's monetary policy strategy proved to be a valuable tool both for making monetary policy decisions and in explaining these decisions to the general public. Throughout the year, the Eurosystem was therefore able to focus on maintaining the environment of price stability, with inflation running on average at just over 1%. The Eurosystem will, therefore, continue to explain the importance of its primary objective of maintaining price stability in the euro area. The report also stresses that the introduction of the euro, in particular the technical aspects of the process, took place smootly. The first weeks of January 1999 saw the integration of the money markets of the euro area. The Eurosystem's operating framework, with its use of refinancing operations, standing facilities and a minimum reserve system with an averaging provision, functioned remarkably well. Overnight interest rates were generally very stable without the need to resort to fine-tuning operations. The economy of the euro area is now entering a crucial phase. A golden opportunity to achieve substantial reductions in the level of unemployment throughout the euro area and to revitalise the economy is arising, now that economic growth is accelerating in a climate of price stability. This opportunity can only be seized if policy-makers make the right choices and the private sector is confident about the future and thus dares to take initiatives: - a strong focus on maintaining price stability in the medium term is the best contribution that monetary policy can make to reducing unemployment and boosting the confidence of citizens in their currency; - the budgetary authorities should reduce their budget deficits to close to balance, or even create surpluses; - governments shouls undertake structural reforms enabling markets to operate more flexibly; - in wage negotiations, social partners should take into account the importance of maintaining price stability, the growth of productivity, the need to reduce unemployment and the fact that different local circumstances require differentiated wage developments. The report also highlights the importance of the need to make progress with the integration of capital markets, in particular by means of measures that ensure fair competition. The same applies for the creation of an internal market for financial services. A solid regulatory framework will need to be adopted to govern the issue of electronic money.