

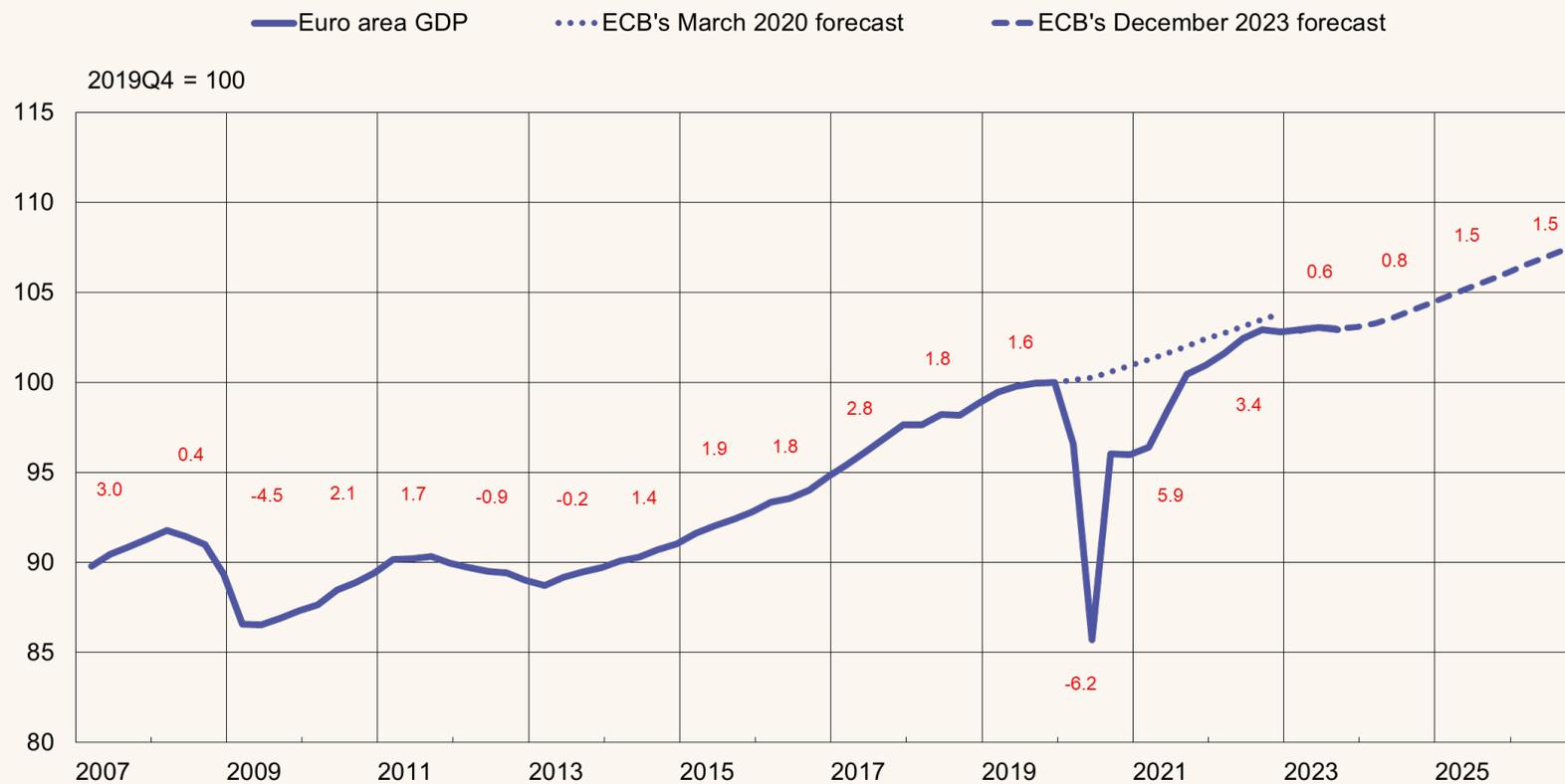


A thriving Finland needs a robust economy

Bank of Finland Bulletin press briefing 19 December 2023

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Suomen Pankki

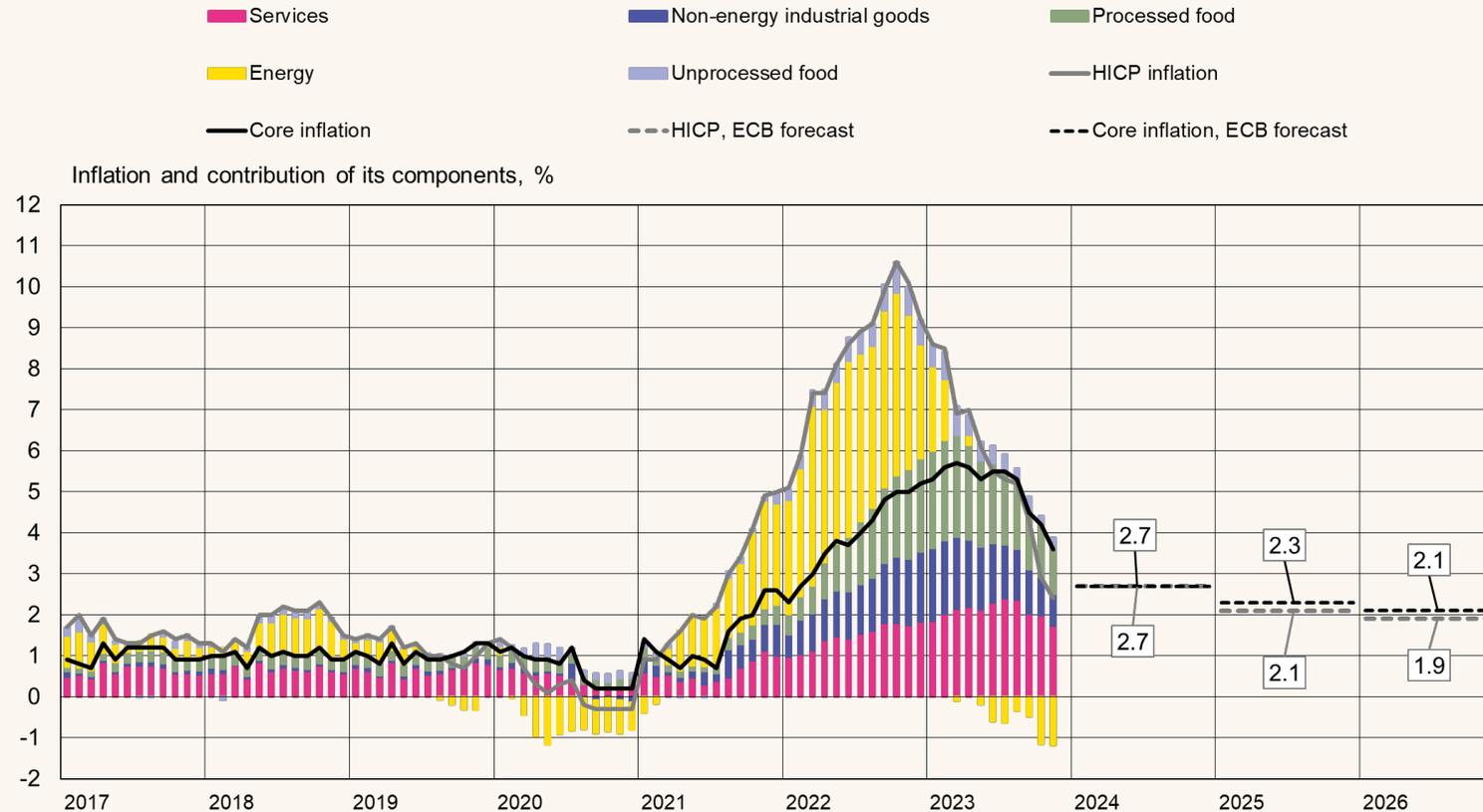
Euro area GDP growth is now subdued



Figures next to the curve are annual growth rates, %
Sources: ECB calculations and Bank of Finland.

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Euro area inflation is approaching the ECB's target



Sources: Eurostat and ECB.

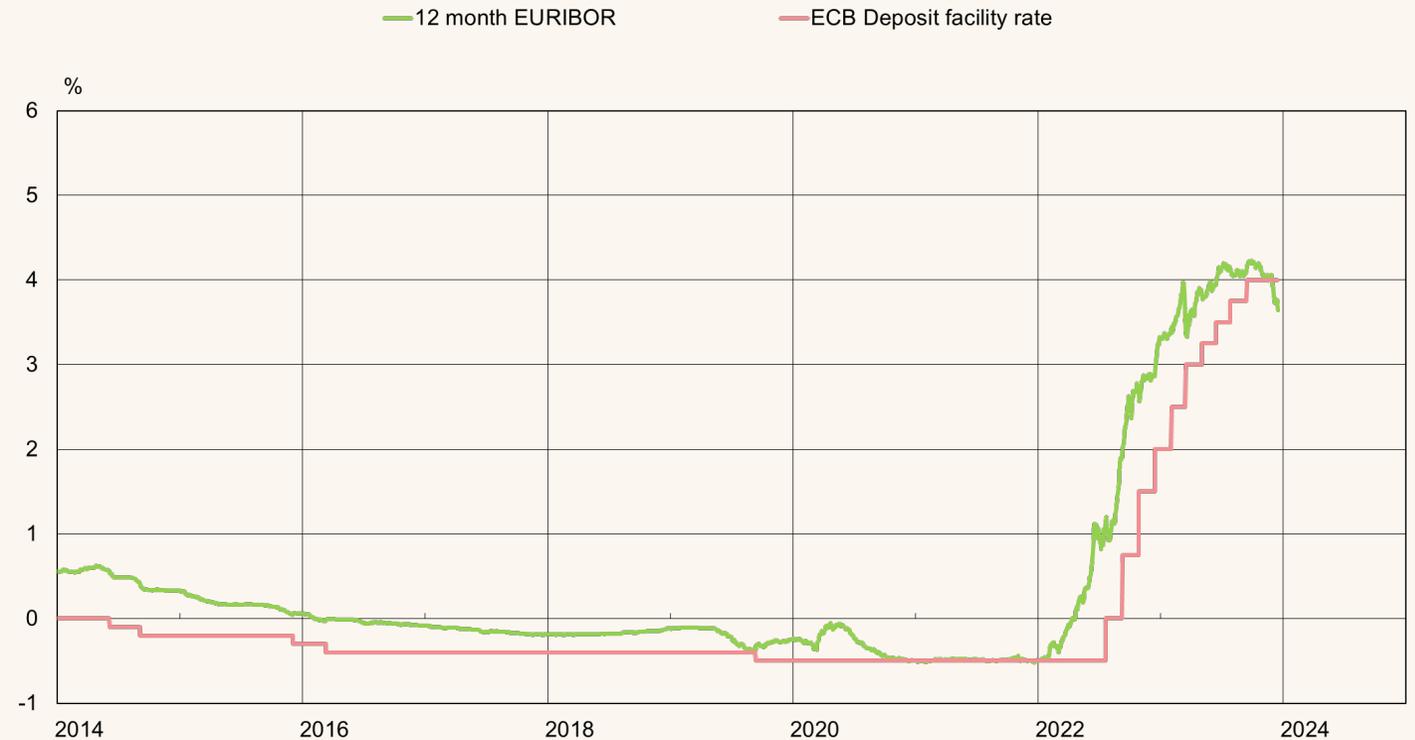
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ECB has raised its key interest rates to ensure inflation returns to the target

1. The ECB Governing Council has kept its key interest rates unchanged since September.
2. Through its interest rate decisions, the Governing Council seeks to ensure that inflation returns to the 2% target in a timely manner.
3. Based on the Governing Council's assessment, the key interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target.
4. The Governing Council's future rate decisions will continue to be based on
 - the inflation outlook in the light of incoming economic and financial data
 - the dynamics of underlying inflation and
 - the strength of monetary policy transmission.

Monetary policy tightening has raised market rates rapidly

- ECB Governing Council has raised its key interest rates by a total of 4.50 percentage points since July 2022.
- The strengthened market expectations for interest rate cuts are reflected in the development of market interest rates in recent weeks.



Sources: ECB and EMMI.

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Monetary policy tightening is transmitted to the real economy via many different channels

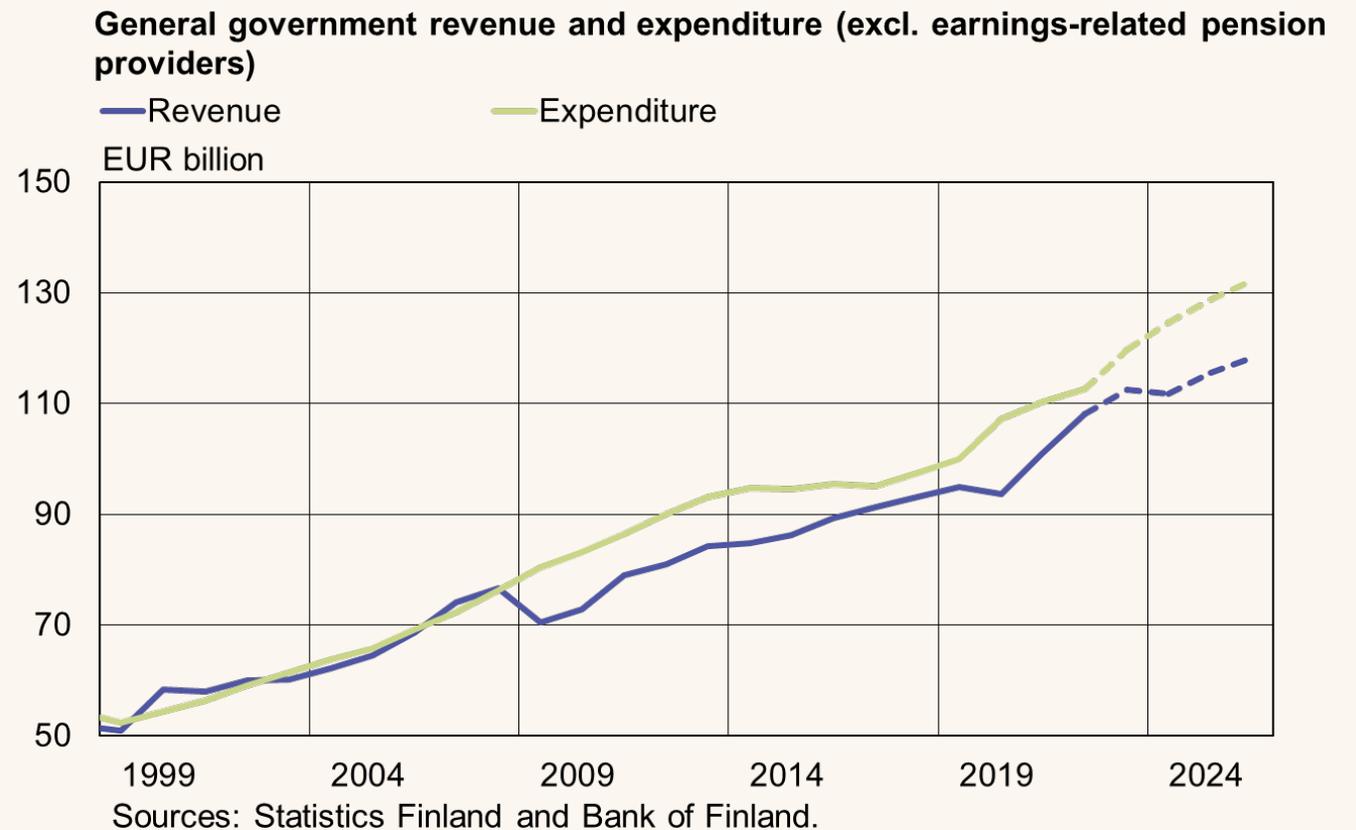
- Due to variable-rate housing loans, the loan-servicing costs of households have risen rapidly in Finland.
- Variable-rate housing loans, however, make only a small contribution to the strength of monetary policy effects in Finland.
 - Majority of housing loans are taken by high-income households that have financial margin.
- In Finland, manufacturing and construction account for a larger-than-average share of value added, which heightens economy's sensitivity to interest rates.

Feature article:

Silvo, Lindblad & Viertola: Monetary policy tightening is slowing inflation and economic growth in Finland

Finland's public finances continue to weaken

- Expenditure cuts approximately EUR 2.5 bn.
- Despite the expenditure cuts, public expenditure is growing rapidly.
- Tax-to-GDP ratio is decreasing as a result of Government's measures and structural factors.
- Prolonged recession will weaken growth in revenue base.



19 Dec 2023
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Total labour input has not risen with the employment rate



Source: Statistics Finland, trend series.

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- Number of persons employed has increased since the turn of the millennium.
- At the same time, working hours per employee have decreased.
- The decrease in working hours has weakened the positive impact of higher employment on public finances.

Bringing an end to debt accumulation requires additional measures

- Rebalancing of the public finances is proving to be even more difficult than expected.
 - Further adjustment measures will probably be necessary.
- Structural reforms are essential.
- Debt sustainability should be a common economic policy priority and a firm commitment should be made to this across parliamentary terms.

Demographics and educational attainment are challenges for Finland's long-term growth

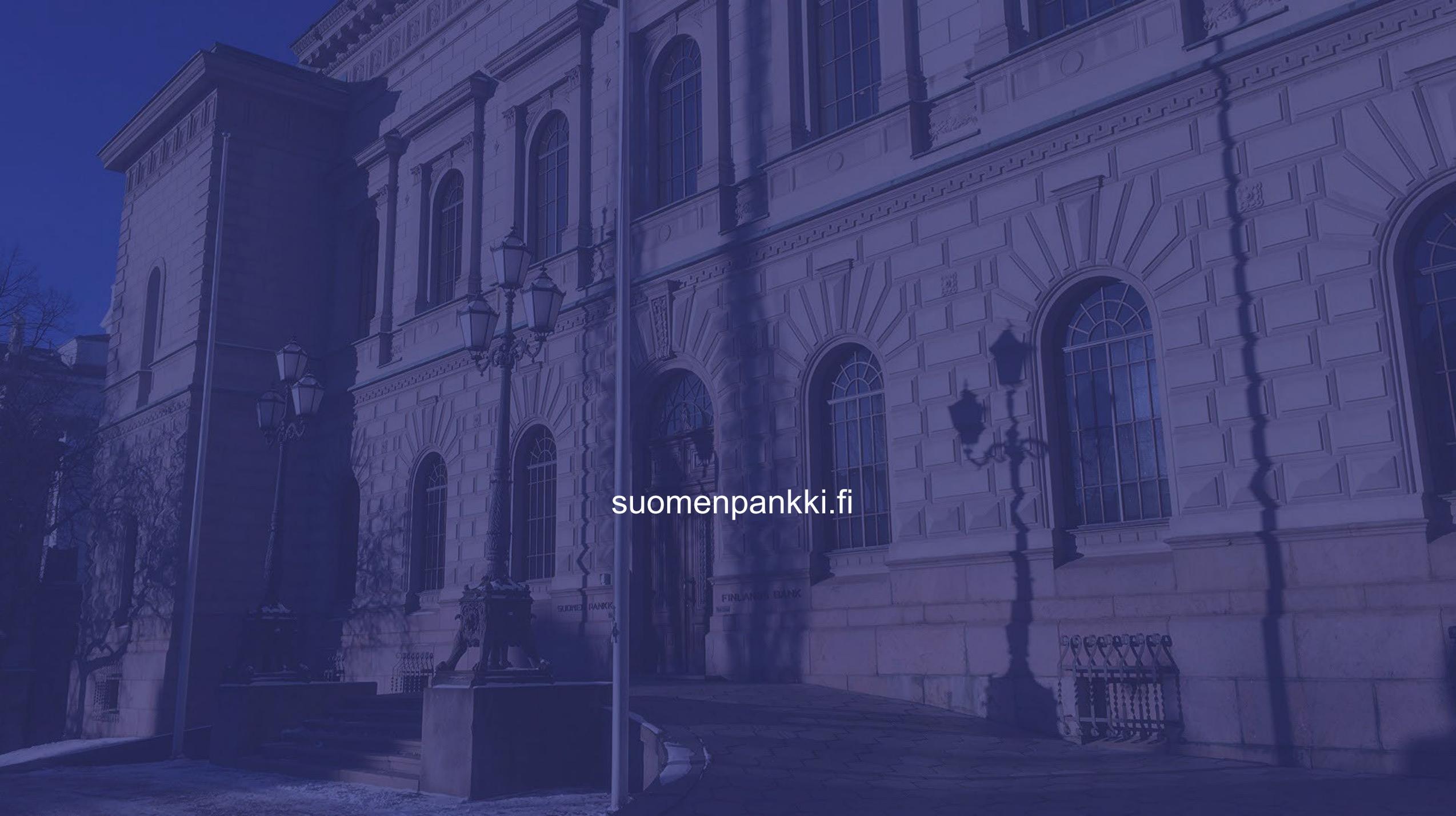
- Population ageing and the halt in the growth of educational attainment are constraining the availability of skilled labour input and weakening the growth prospects of the economy.
- Further reforms are needed to increase the total labour input in the economy.
- Investment in education and research and innovation are also necessary.

Public funding of R&D activity must be channelled in an effective and long-term manner

- RDI policy that promotes productivity growth has two objectives:
 - improving the innovation capacity of the economy
 - promoting the utilisation and wide adoption of innovation outputs.
- Inventing and adopting new solutions is done by people.
 - There are good grounds for the public sector to invest particularly in basic research and in related education.
- The Government can best promote innovations and their adoption by creating a stable and appropriate environment for individuals and companies.

Main messages

- Finland's international operating environment has become more difficult.
- Finland's economy is in recession. Long-term growth is projected to be slow.
- Debt sustainability should be raised as a common priority, and a firm commitment made to this across parliamentary terms.
- Conditions for sustainable economic growth must be ensured with a long-term economic policy that supports innovations and their utilisation.



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