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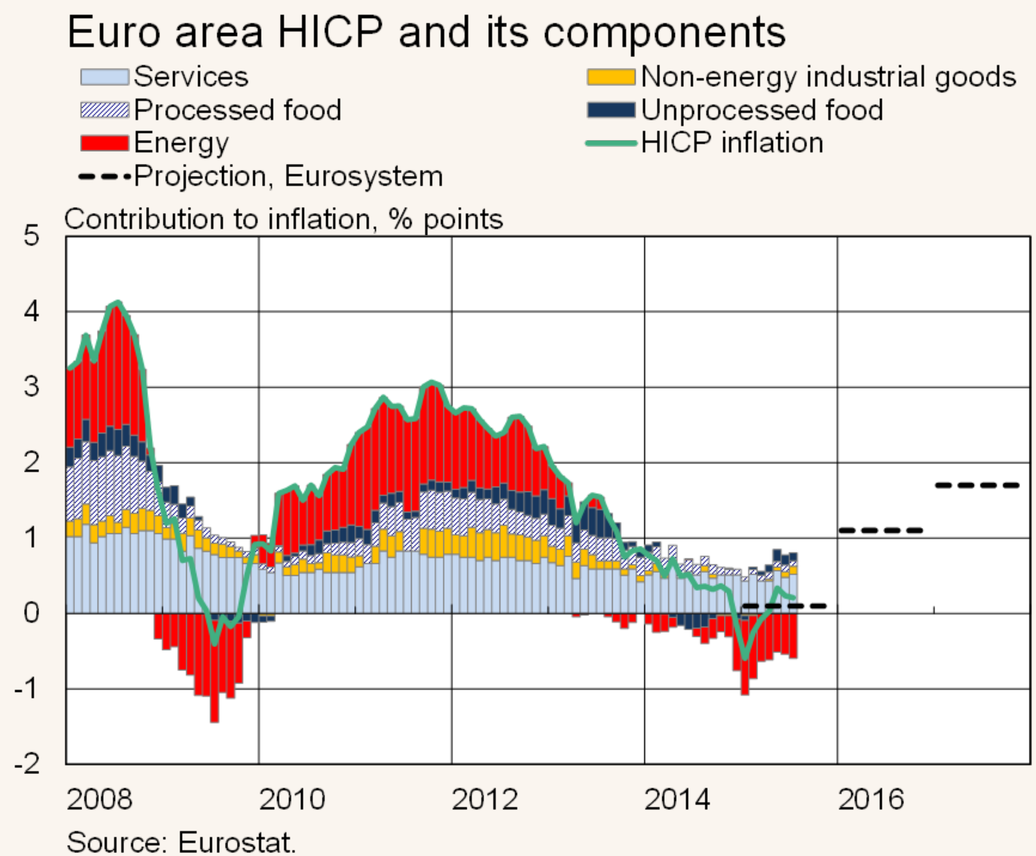
Bank of Finland

Euro & talous 4/2015

Monetary policy in September 2015

ECB’s Governing Council will closely monitor all relevant information and stands ready to act

Inflation below the price stability objective



Revisions to growth and inflation forecasts:
ECB staff macroeconomic projections, September 2015

(change relative to the June 2015 Eurosystem projections)

- ***GDP:***
  2015: 1.4% (-0.1%)
  2016: 1.7% (-0.2%)
  2017: 1.8% (-0.2%)

- ***Inflation:***
  2015: 0.1% (-0.2%)
  2016: 1.1% (-0.4%)
  2017: 1.7% (-0.1%)

Renewed fall in inflation expectations due to lower oil prices

Source: Bloomberg.

Governing Council will closely monitor all relevant information…

- Due to increased uncertainty, risks to the outlook for economic growth and inflation in the euro area are on the downside.
- At its meeting of 3 September 2015, the ECB Governing Council:

‘judged it premature to conclude on whether these developments could have a lasting impact on the outlook for prices and on the achievement of a sustainable path of inflation towards our medium-term aim, or whether they should be considered to be mainly transitory.’

… and stands ready to act

- *‘The Governing Council will closely monitor all relevant incoming information. It emphasises its willingness and ability to act, if warranted, by using all the instruments available within its mandate.’*

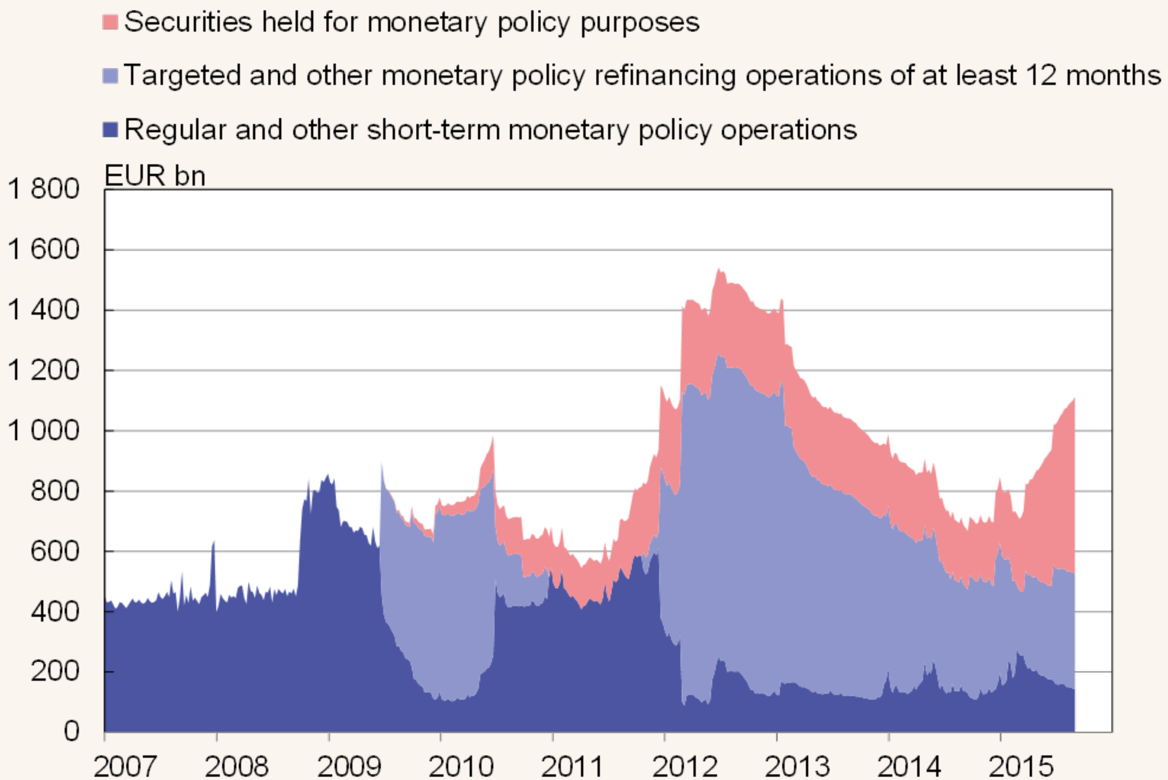
- ***‘In particular, the asset purchase programme provides sufficient flexibility in terms of adjusting the size, composition and duration of the programme****.’*

Monetary policy exceptionally accommodative for a prolonged period

Euro area monetary policy strongly supportive of growth

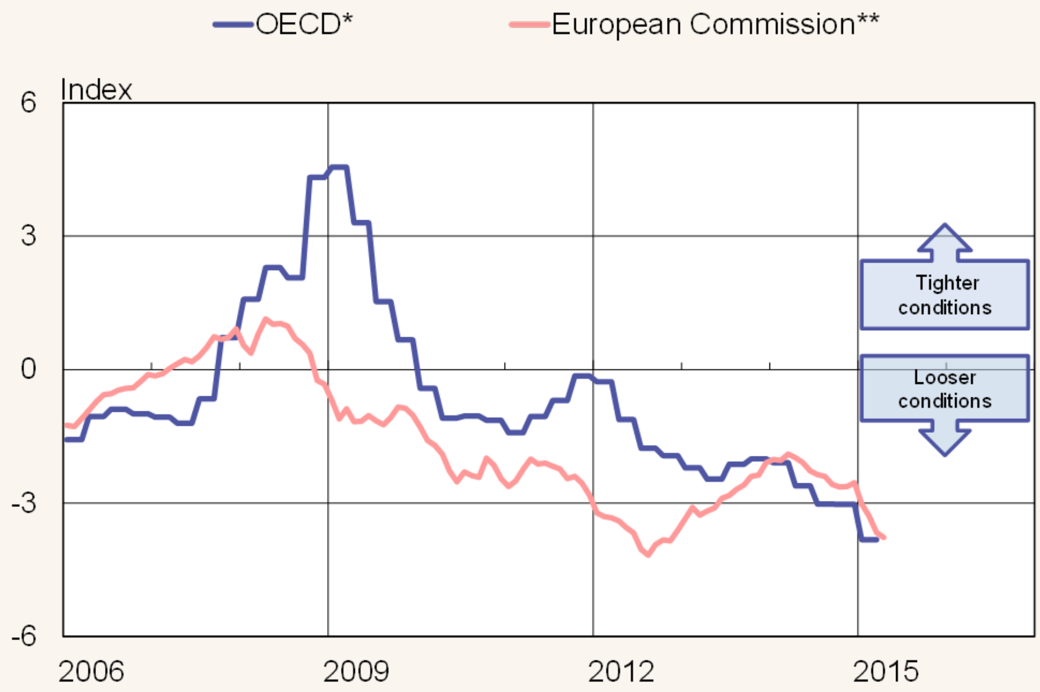
- Monetary policy rates reduced to the zero lower bound
- Forward guidance
  - How to achieve the objective of price stability
  - The expanded asset purchase programme will continue beyond 2016, if necessary
  - Full-allotment policy until the end of 2016
- Refinancing operations
  - (Targeted) longer-term refinancing operations
- Asset purchase programmes
  - The expanded asset purchase programme (launched in March 2015, monthly purchases of EUR 60 bn until at least September 2016)

Refinancing operations and asset purchases



Source: ECB.

Financial conditions in the euro area

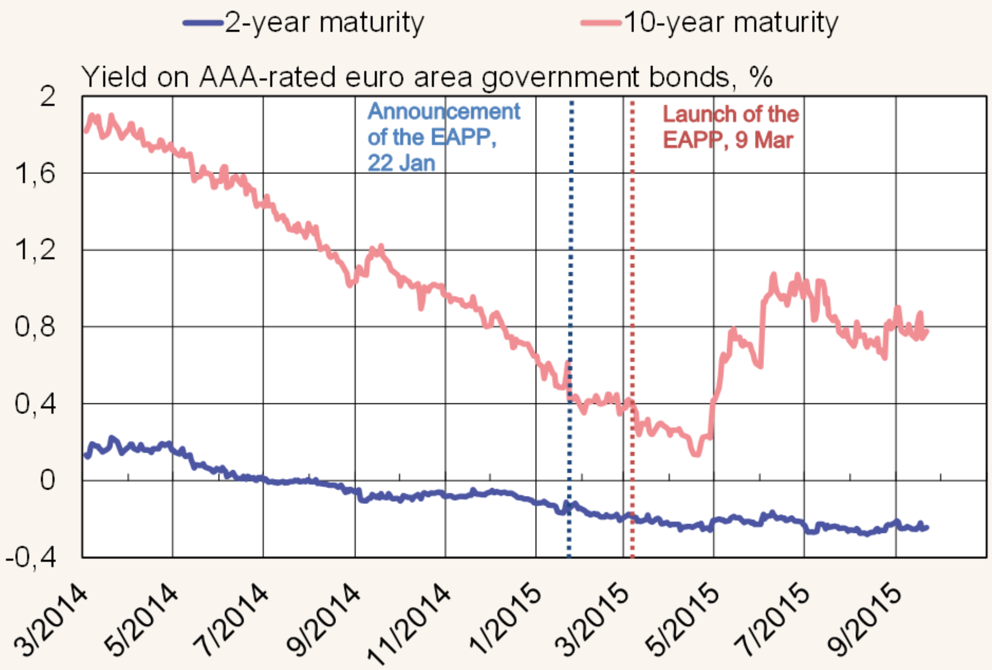


Sources: OECD and European Commission.

* Financial Conditions Index (FCI) includes short-term and long-term interest rates, corporate loan spread, credit availability, household wealth position. Reverse index.

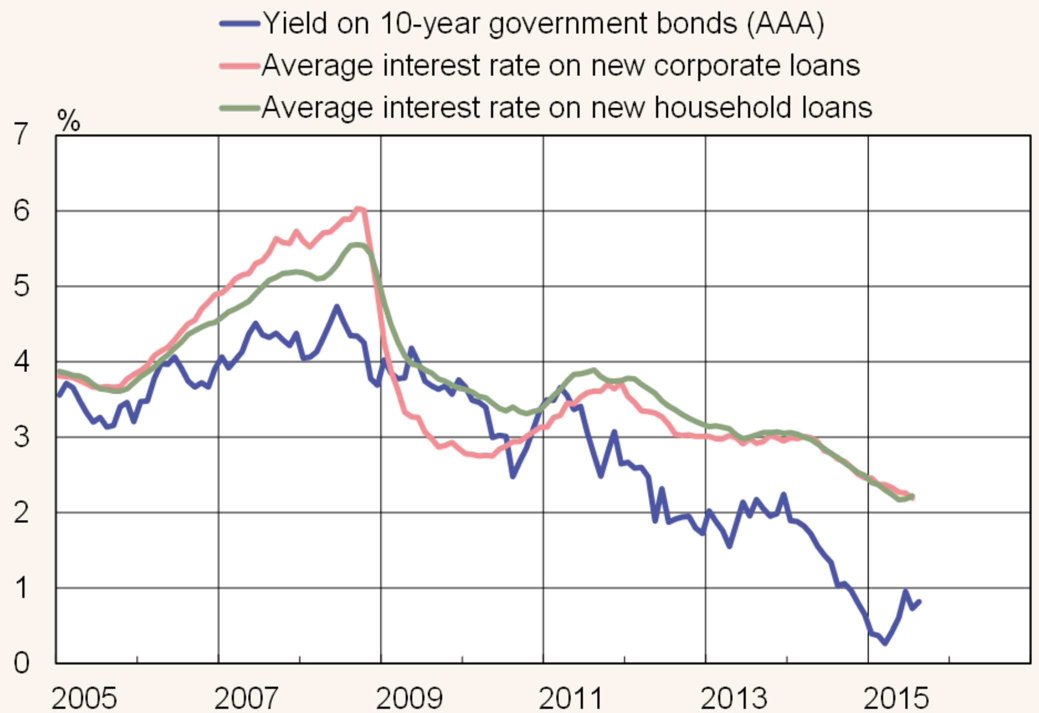
** Monetary Conditions Index (MCI) includes short-term interest rates and the exchange rate.

Government bond yields have fluctuated recently



Source: ECB.

Lower interest rates on corporate and household loans



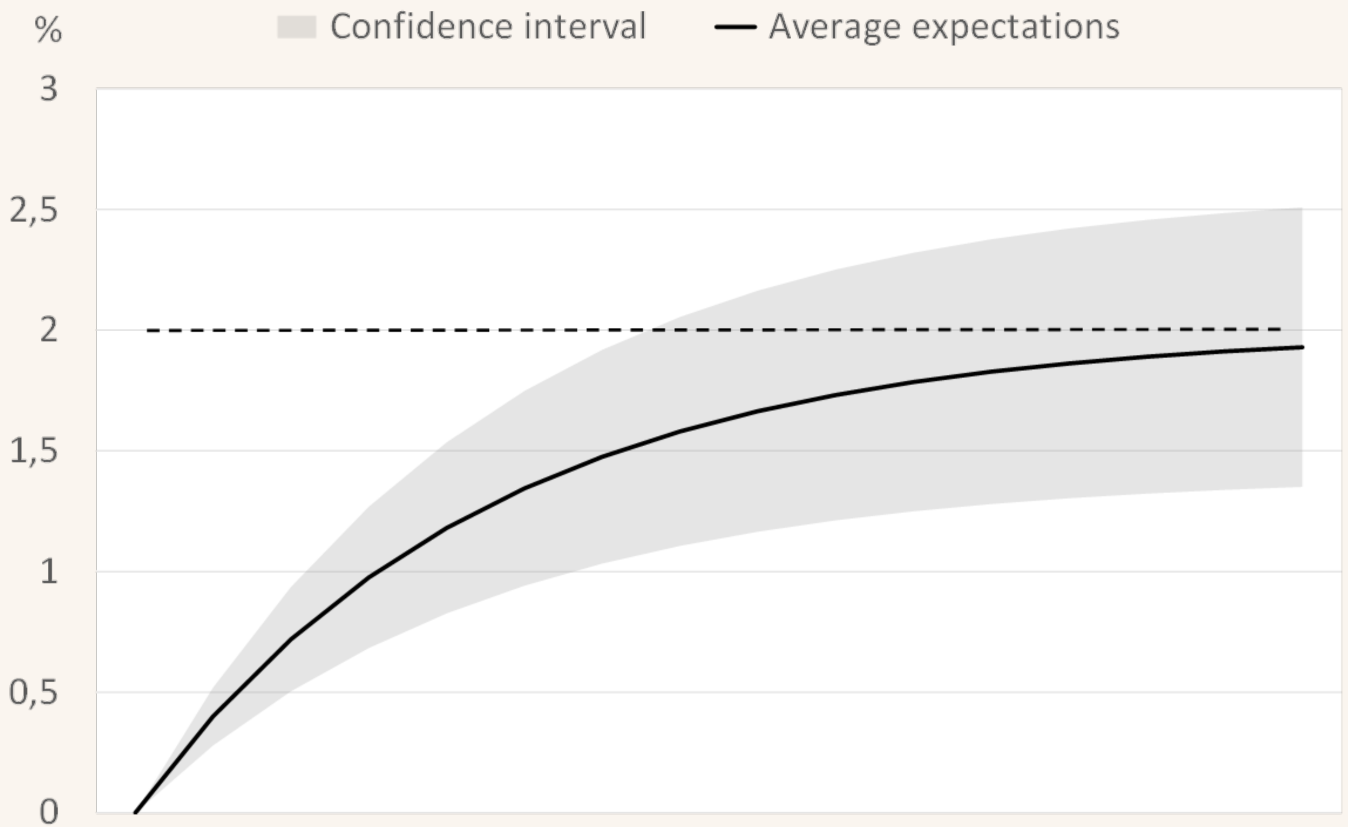
Sources: ECB and Macrobond.

Price stability objective

- The objective of price stability is set at slightly below, but close to, 2% in the medium term.
  - This has been reflected as fluctuations in inflation since monetary union such that the monthly rate of change in prices, year-on-year, has fluctuated between over 4% and -0.6% in the short term.

- ‘***The full implementation of all the monetary policy measures supports the recovery of the euro area economy and promotes sustained adjustment in the path of inflation that is consistent with the aim of achieving inflation rates below, but close to, 2% over the medium-term.’***

Medium term inflation expectations



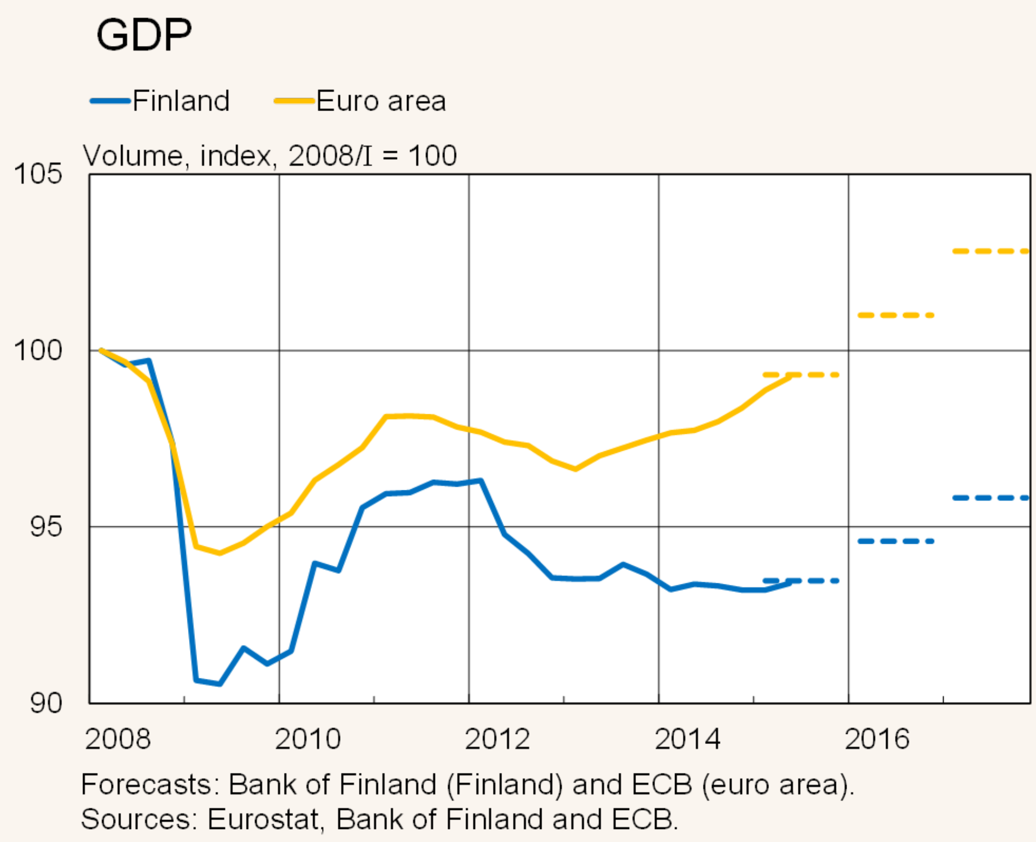
Two additional articles in the Bank of Finland Bulletin:

- Hanna Freystätter: How can we simultaneously maintain both price stability and financial stability in the euro area?
  - *The operating environment for monetary policy has changed: the euro area macroprudential system – or macroprudential framework – for dampening country and sector-specific overheating is now stronger than before the financial crisis.*

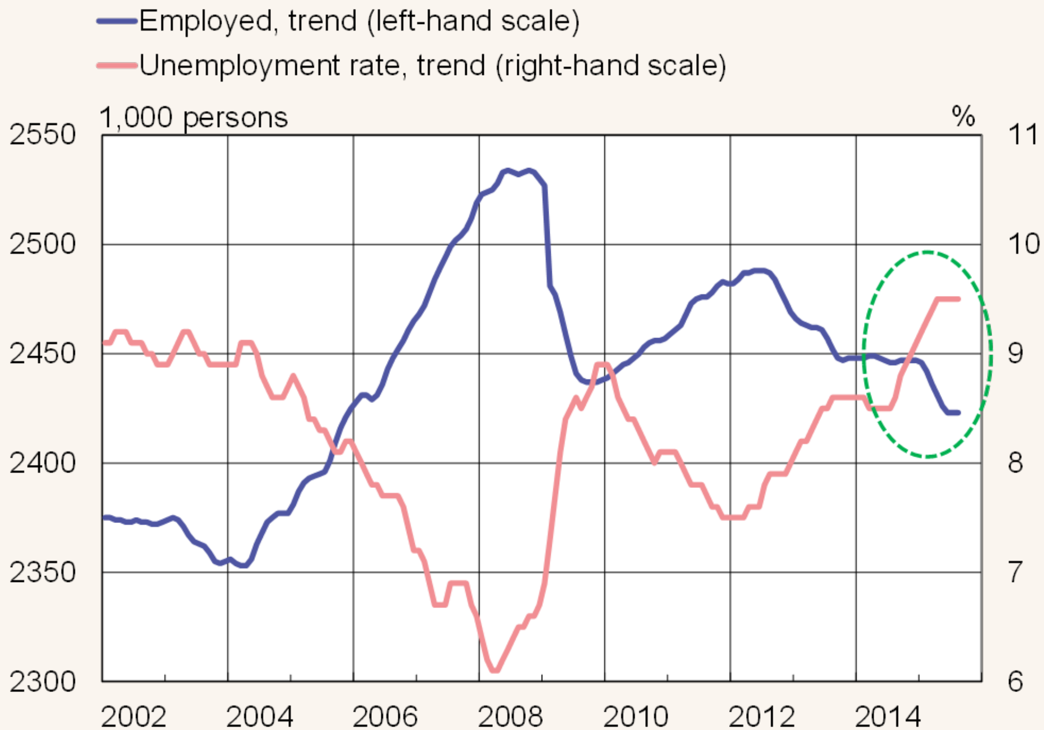
- Katja Taipalus and Jouni Timonen: Macroprudential supervision racing to keep pace with market developments
  - *Along with the traditional banking sector, we are witnessing a very rapid emergence of a number of totally new market participants as providers of finance. Their ability and readiness to deal with risks is weaker than those of traditional banks. In an environment of exceptionally low interest rates, authorities are responsible for ensuring an adequate monitoring of vulnerabilities caused by interest rates.*

Developments still subdued in the Finnish economy

GDP growth weaker in Finland than across the euro area

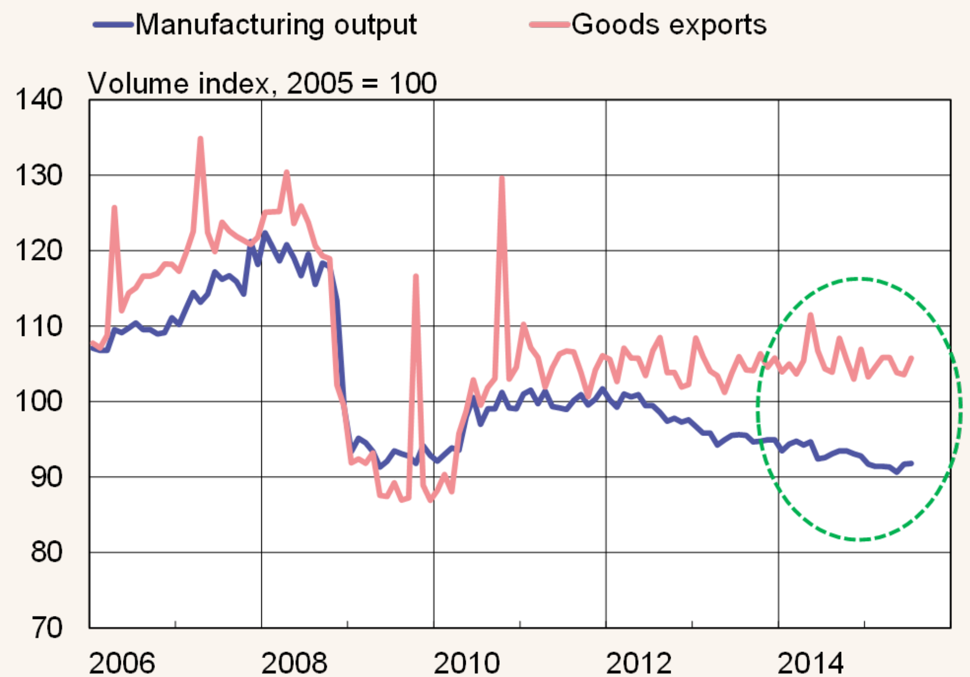


Employment situation deteriorated rapidly in autumn and winter



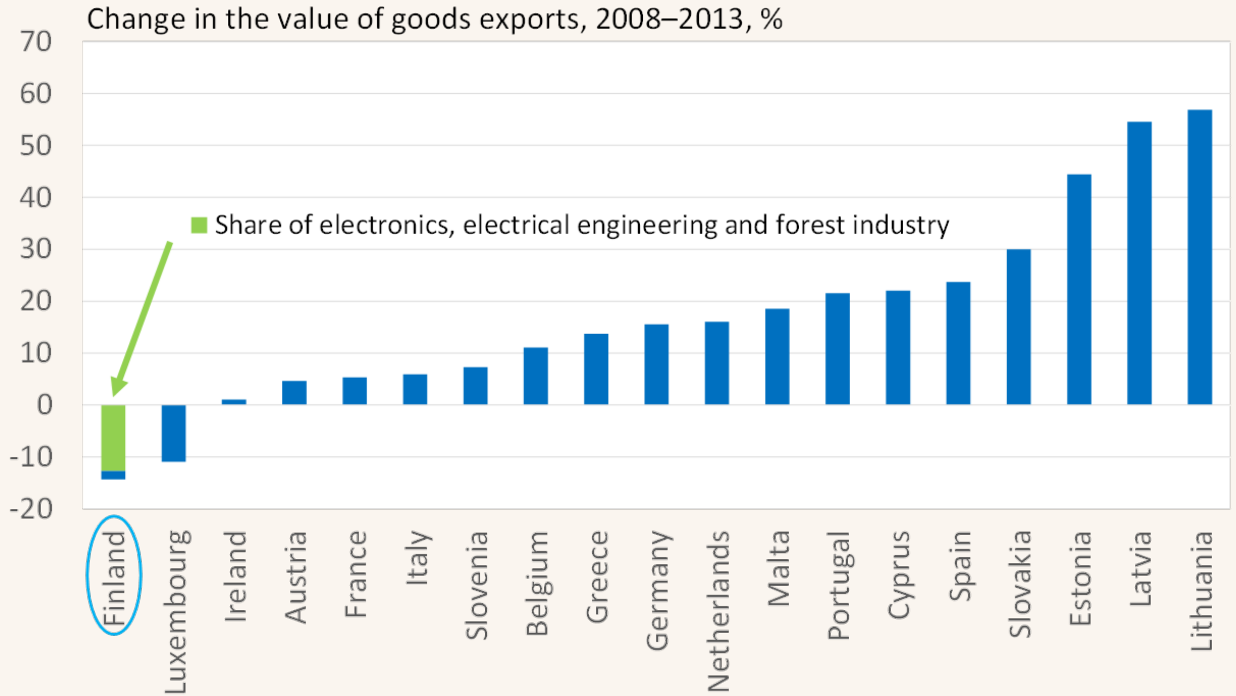
Source: Statistics Finland.

Subdued trend in exports and industry



Seasonally adjusted figures.
Sources: Statistics Finland, National Board of Customs and Bank of Finland (seasonal adjustmet of the volume of goods exports).

Exceptionally weak export dynamics also in industries other than electronics and forest industry



Sources: OECD, Eurostat and Finnish Customs.

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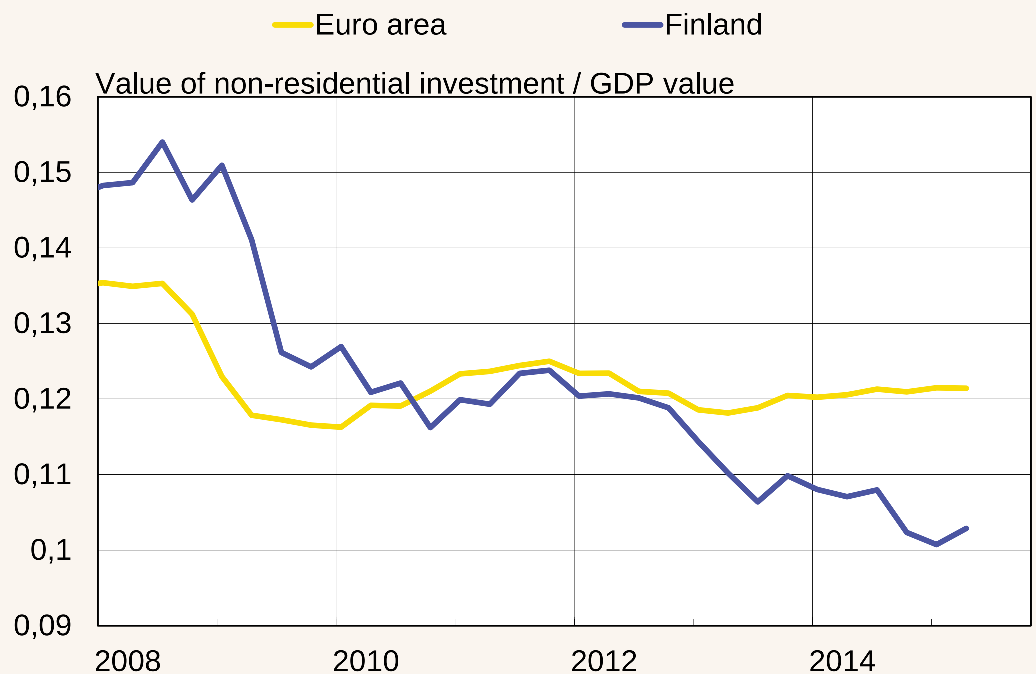
Interest rates on corporate loans are low in Finland…

Source: ECB.

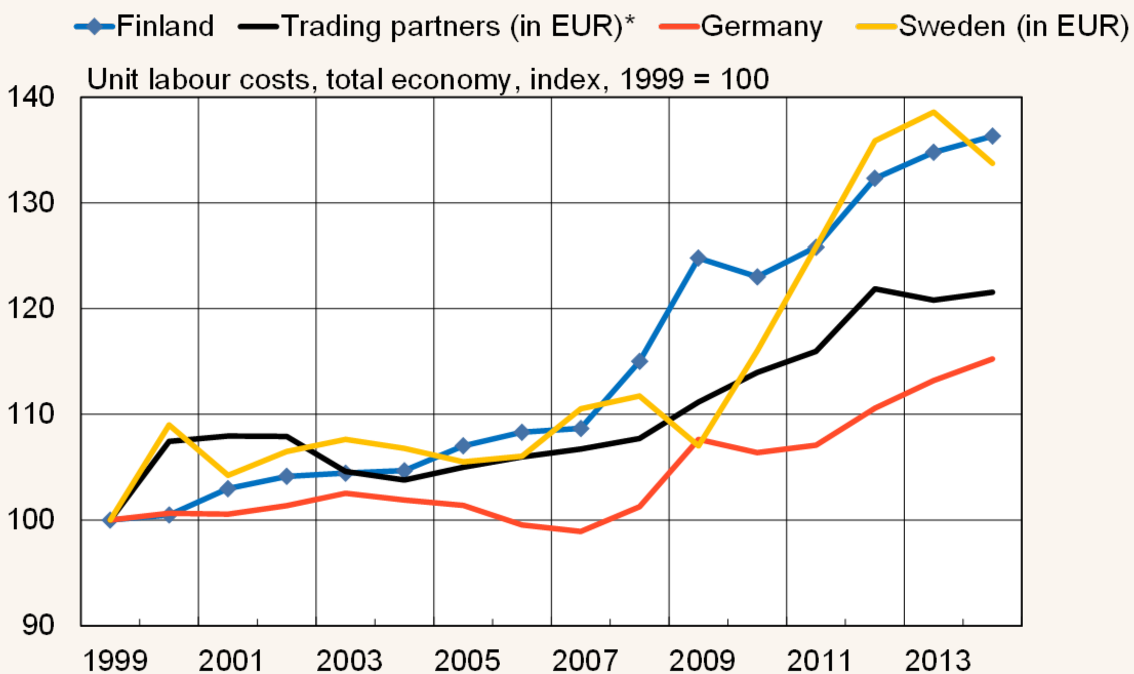
… but non-residential investment has still decreased



Sources: ECB and Bank of Finland.

Thank you!

Finland's cost competitiveness declined



*) Group of 21 trading partners, weighted average of Finland's trade shares.
Sources: European Commission and ECB.