



Monetary policy implementation and market conditions in the euro area

CFA Society Finland Forecast Dinner 9.2.2023

Board Member Tuomas Välimäki
Bank of Finland

ECB's Governing Council decides on the monetary policy for the euro area

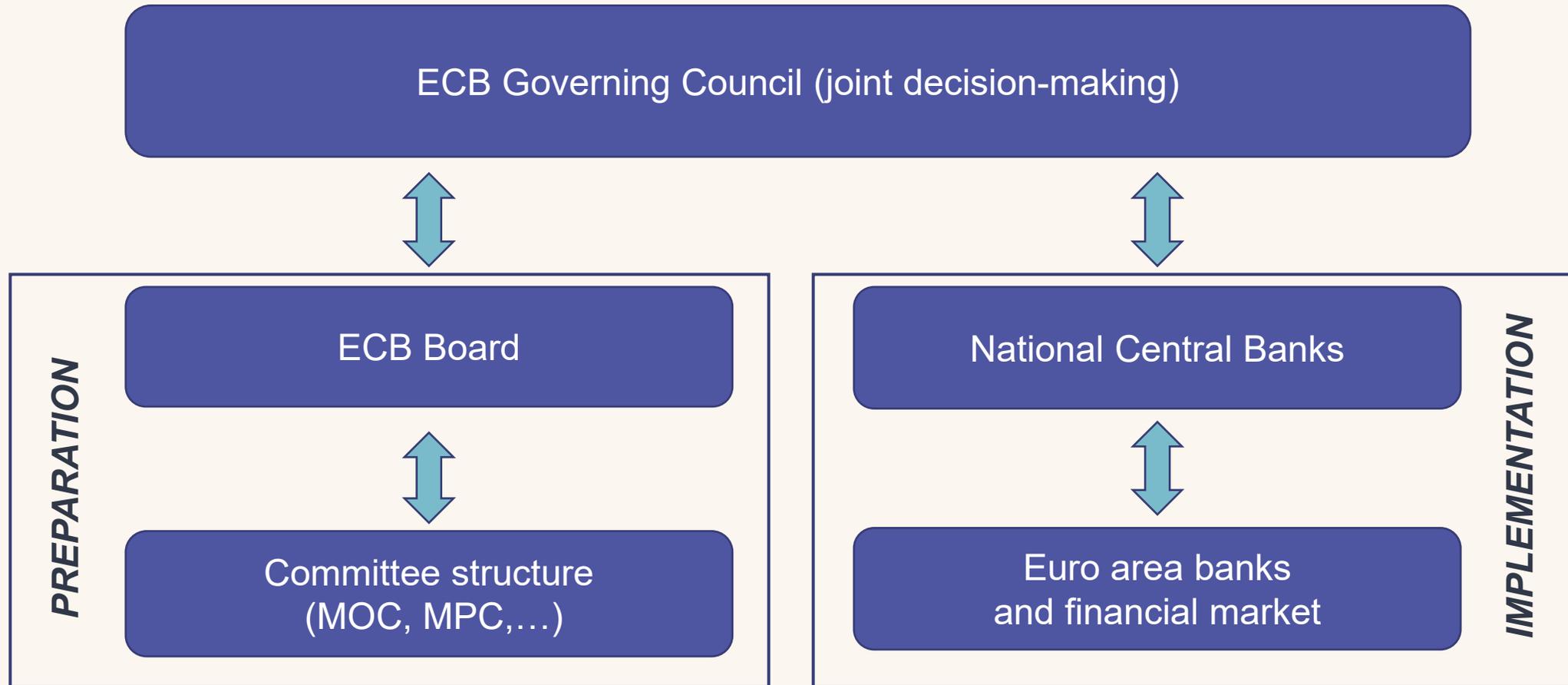


ECB's main objective is to maintain price stability



- The primary objective of the Eurosystem is maintaining price stability with an inflation rate target of 2% over the medium term
- The inflation target is symmetric: an inflation that is too low is viewed just as negatively as the inflation that is too high.
- As a European institution, acting within its mandate and without prejudicing the primary objective of maintaining price stability, the Eurosystem also supports general economic policies of the European Union

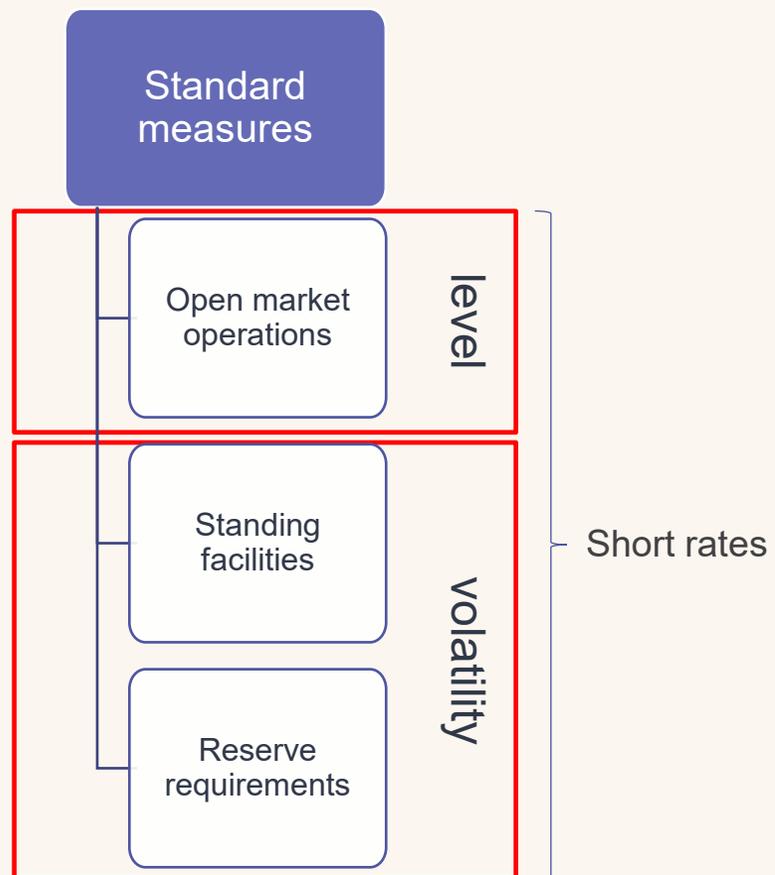
Monetary policy preparation, decision-making and implementation



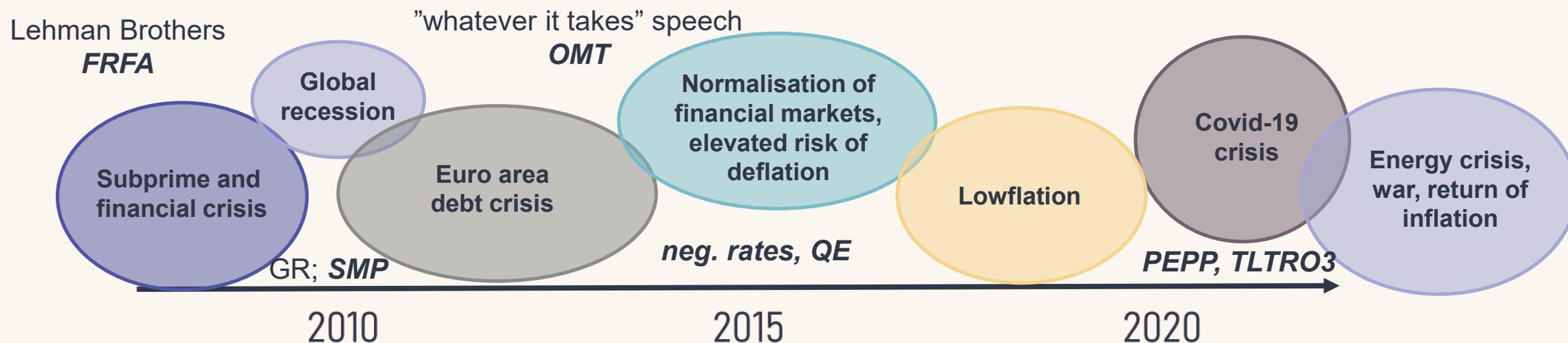


Monetary policy under different conditions

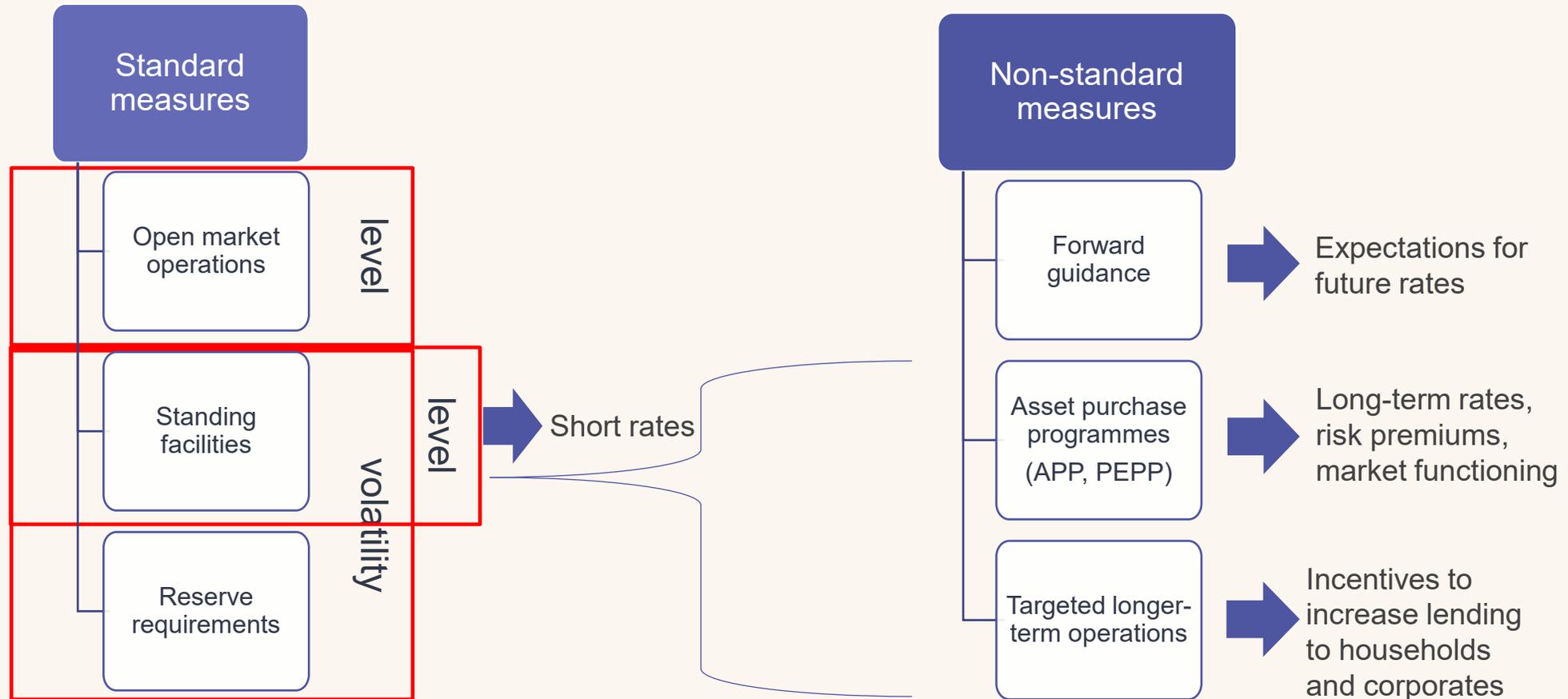
Eurosystem's monetary policy toolbox



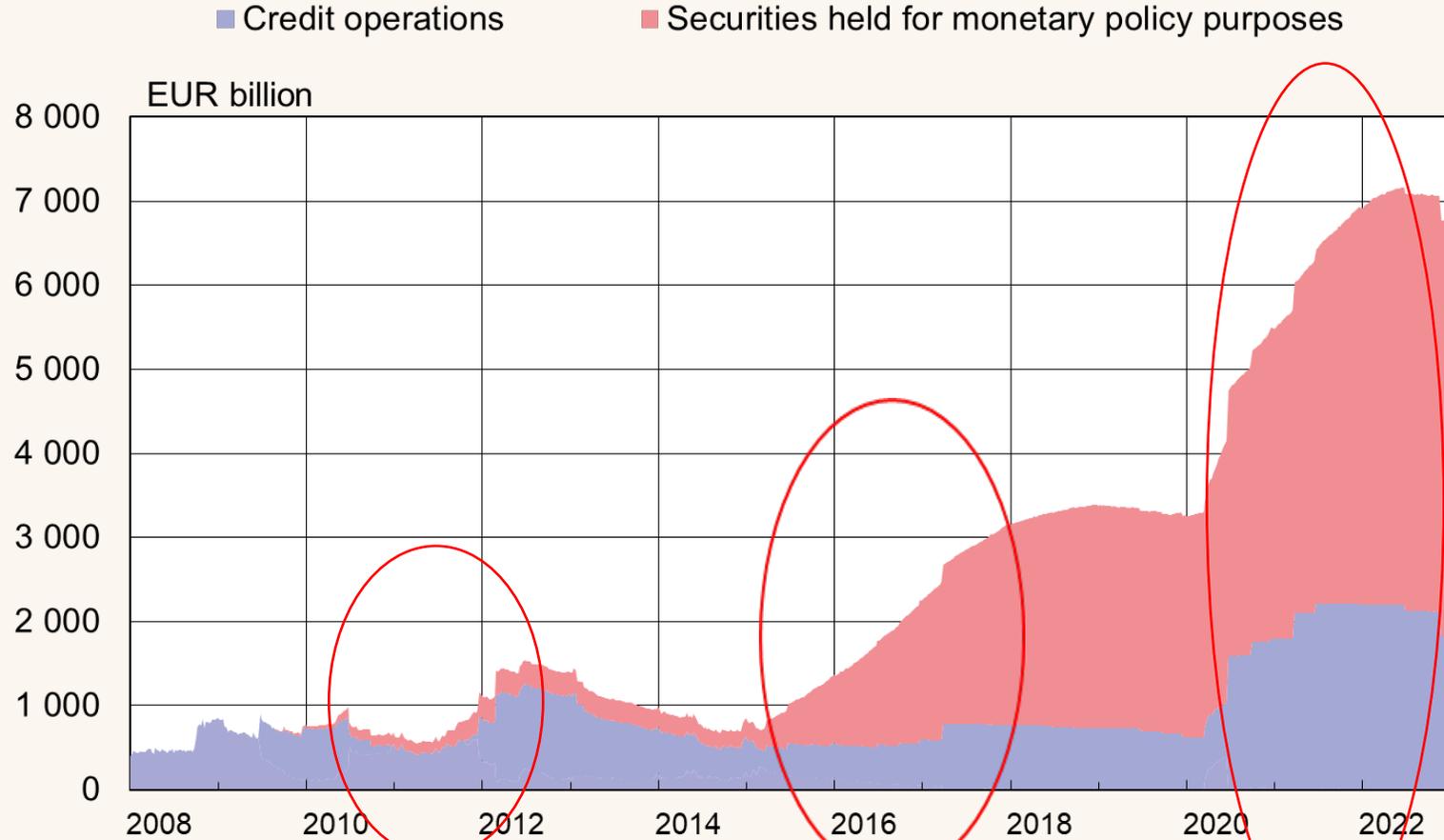
Timeline from financial crisis



Eurosystem's monetary policy toolbox



Monetary Policy Operations

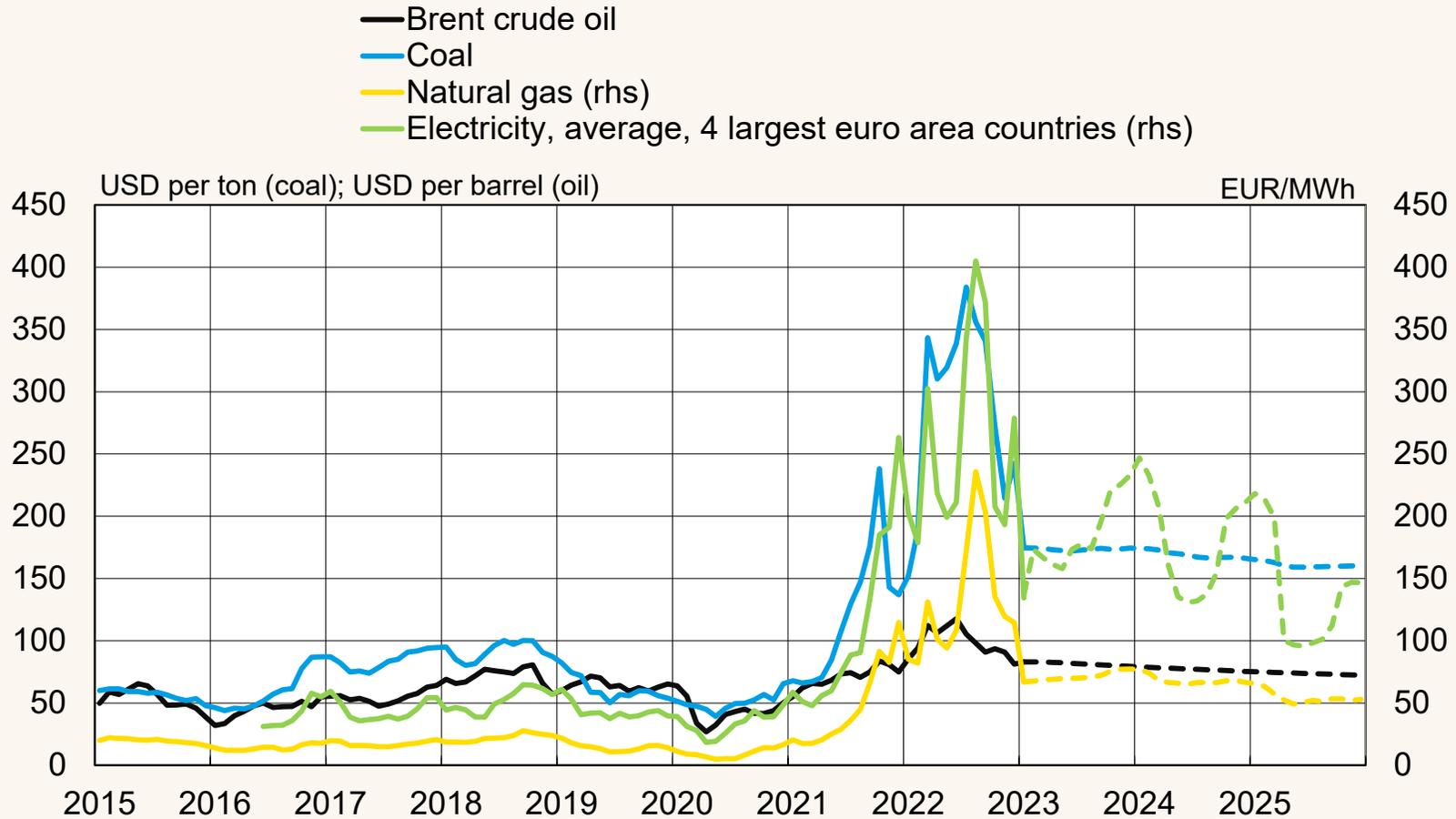


Source: ECB.

32422@ekp_tase2_en

Euro area inflation and economic growth

Energy crisis maintains uncertainty and has a substantial influence on the economic outlook of Europe and Finland

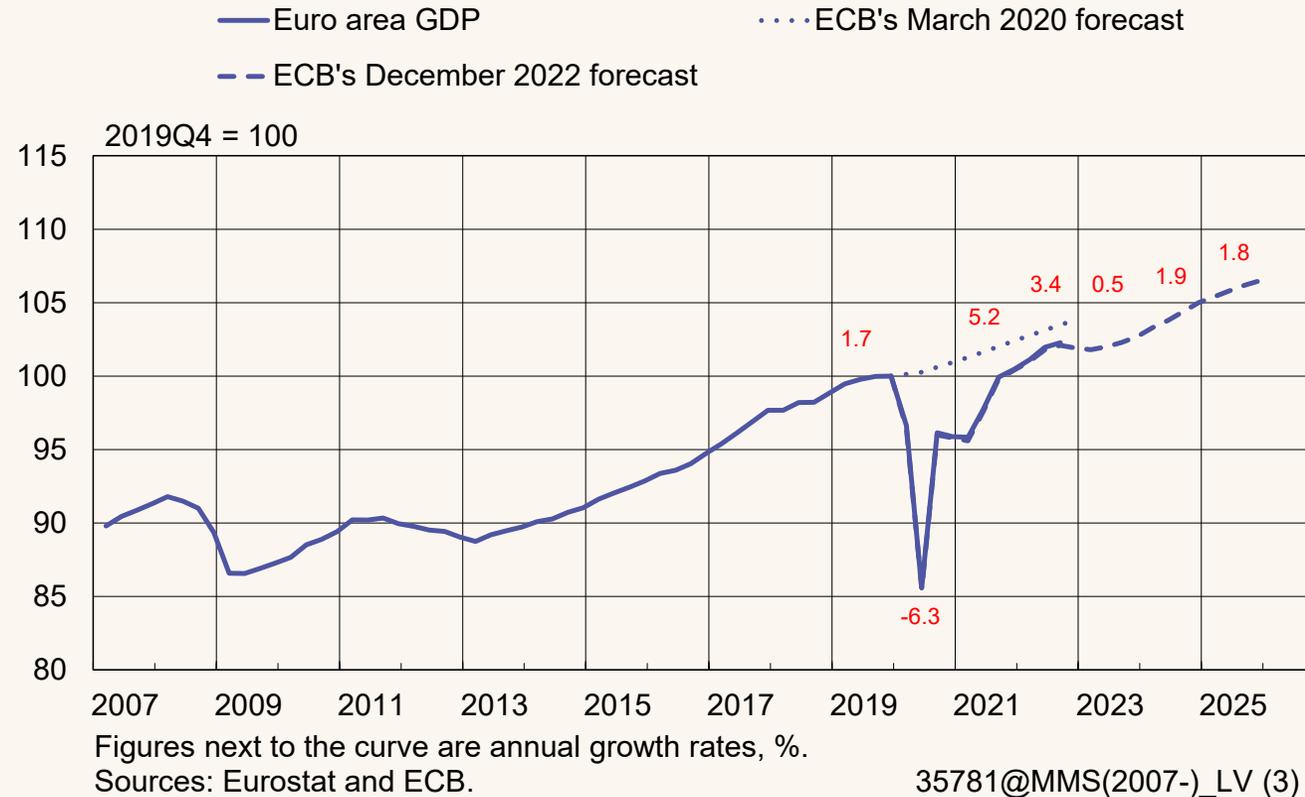


Sources: ICE, Nordpool and Macrobond. Monthly average prices.

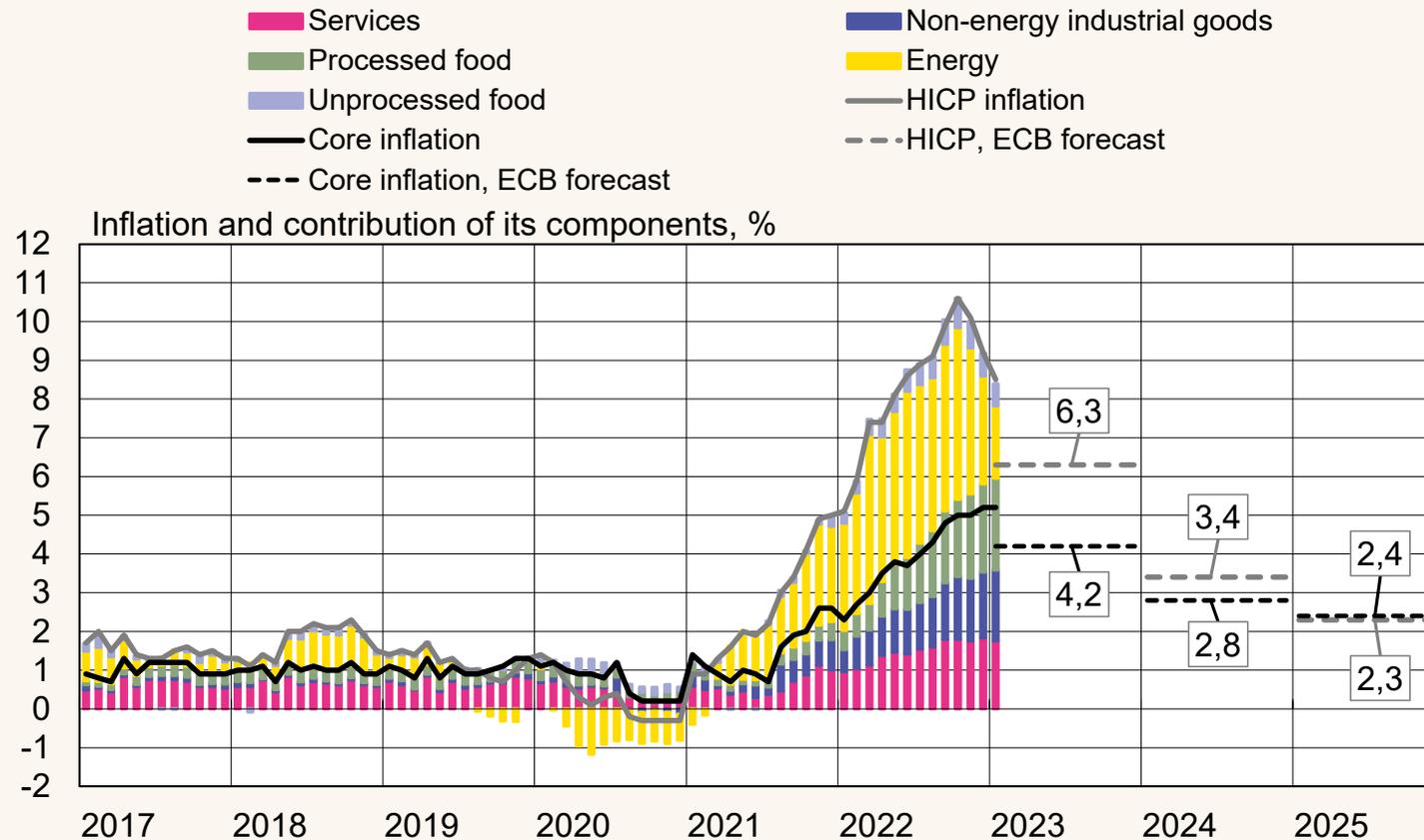
Evolution of futures prices shown with dotted line.

34020@energianhinnat2(en)

Energy crisis weakens growth prospects of the euro area



Share of energy inflation is decreasing - but inflation has broadened to the entire economy

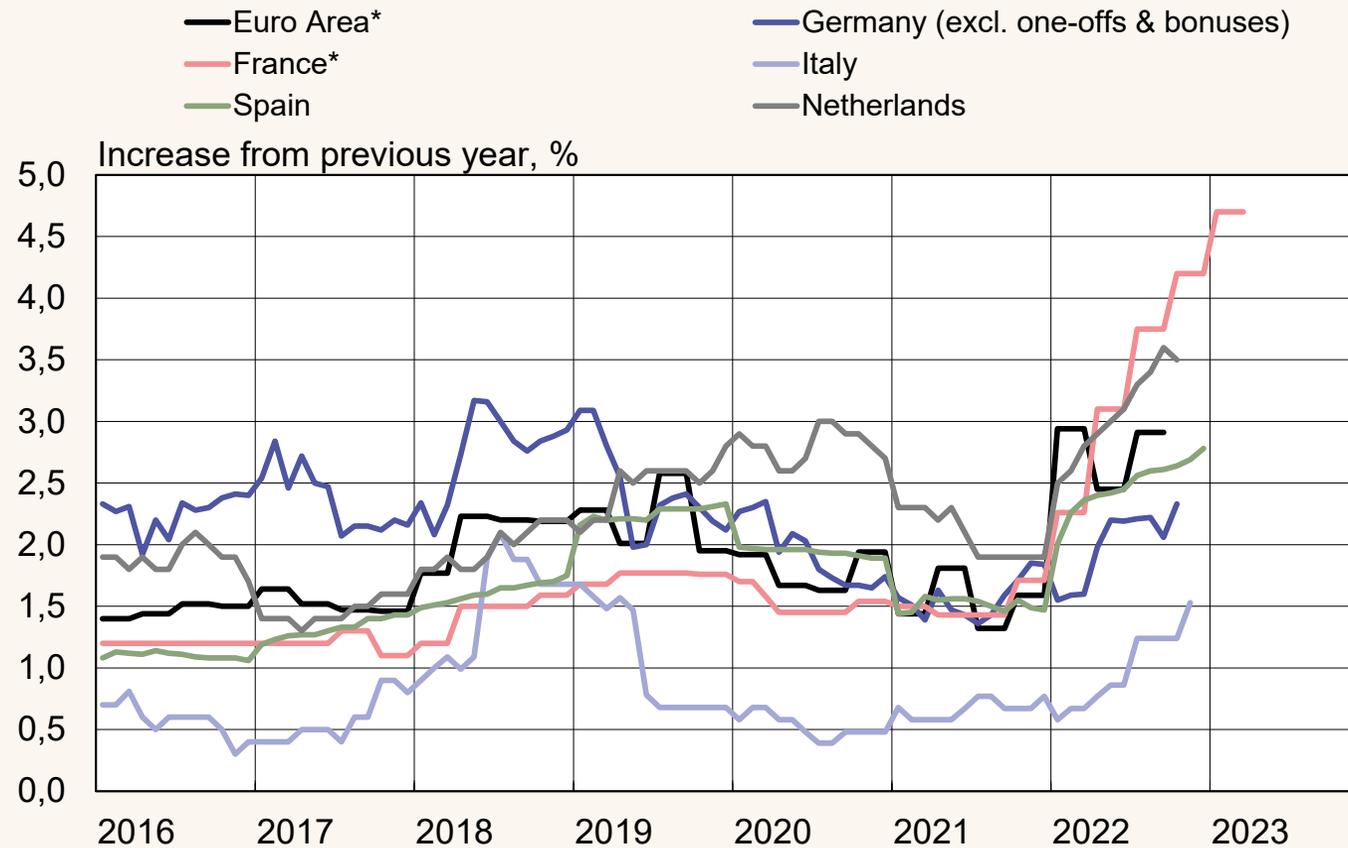


Sources: Eurostat and ECB.

32426@YKHIkontrib(2)en

Wage inflation has gained pace after a long period of remaining moderate

The level of negotiated wages has increased

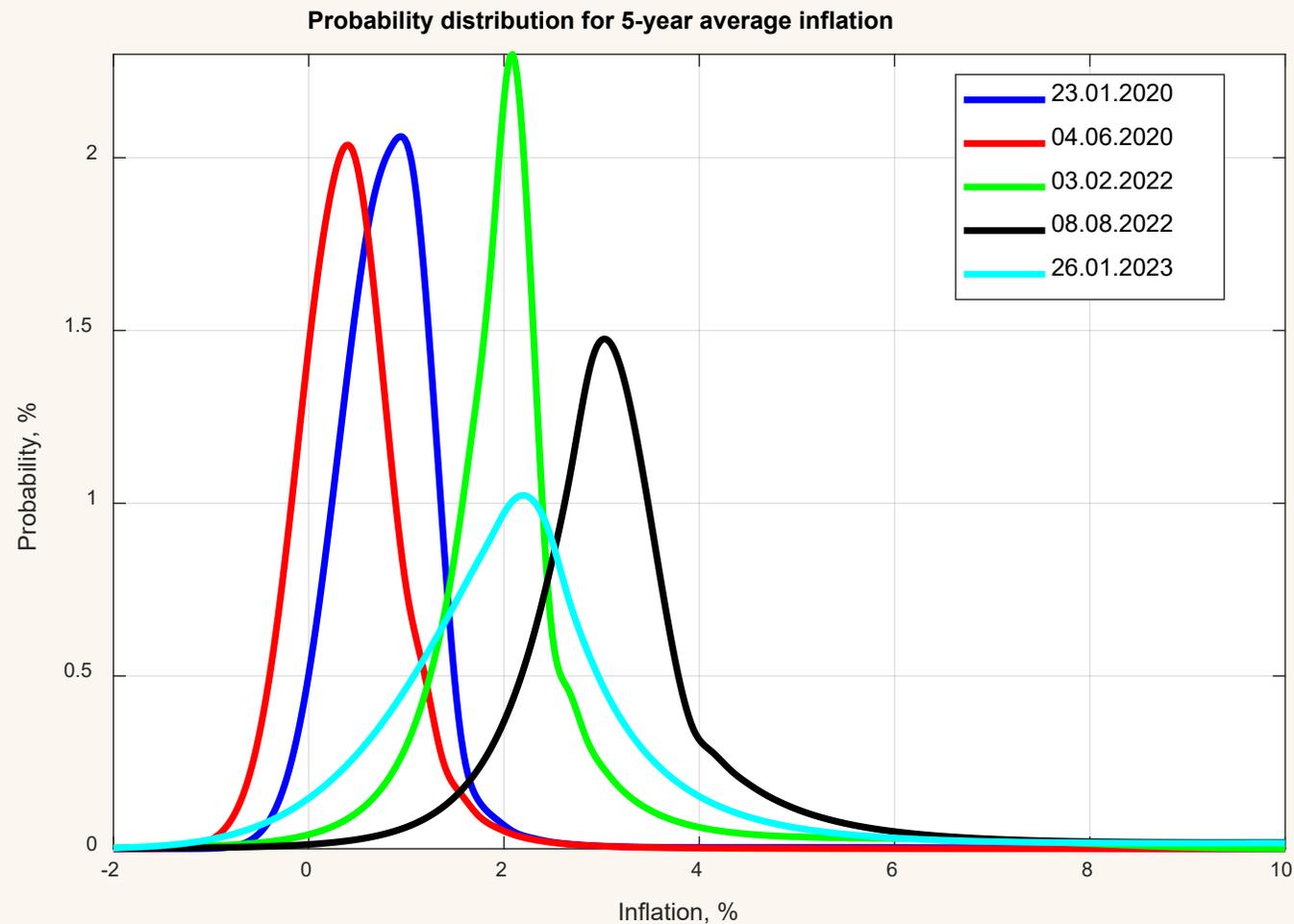


* Quarterly series.

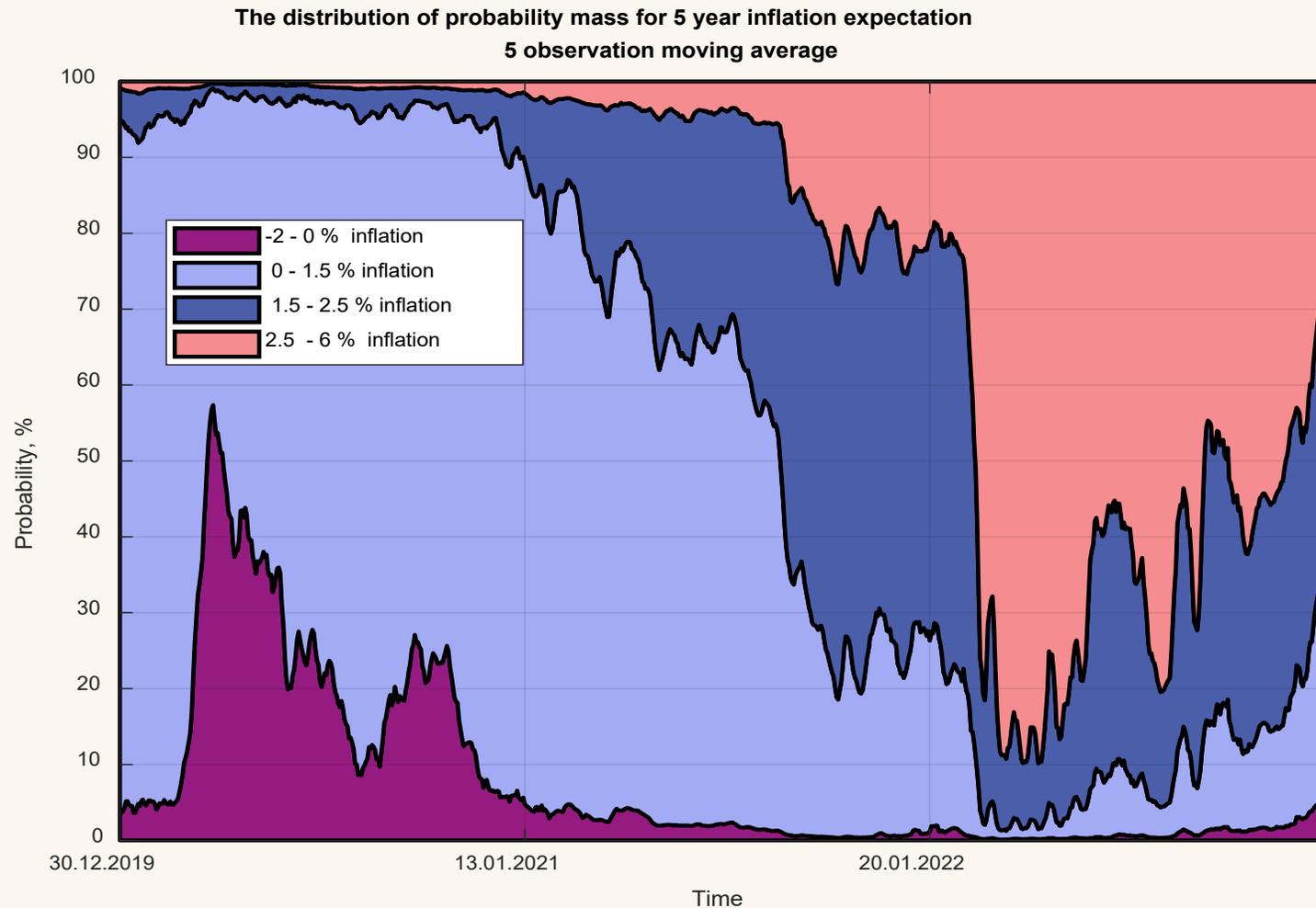
Source: ECB.

32426@Negowage_kk (3)en

Market implied 5-year inflation probability distributions I



Market implied 5-year inflation probability distributions II



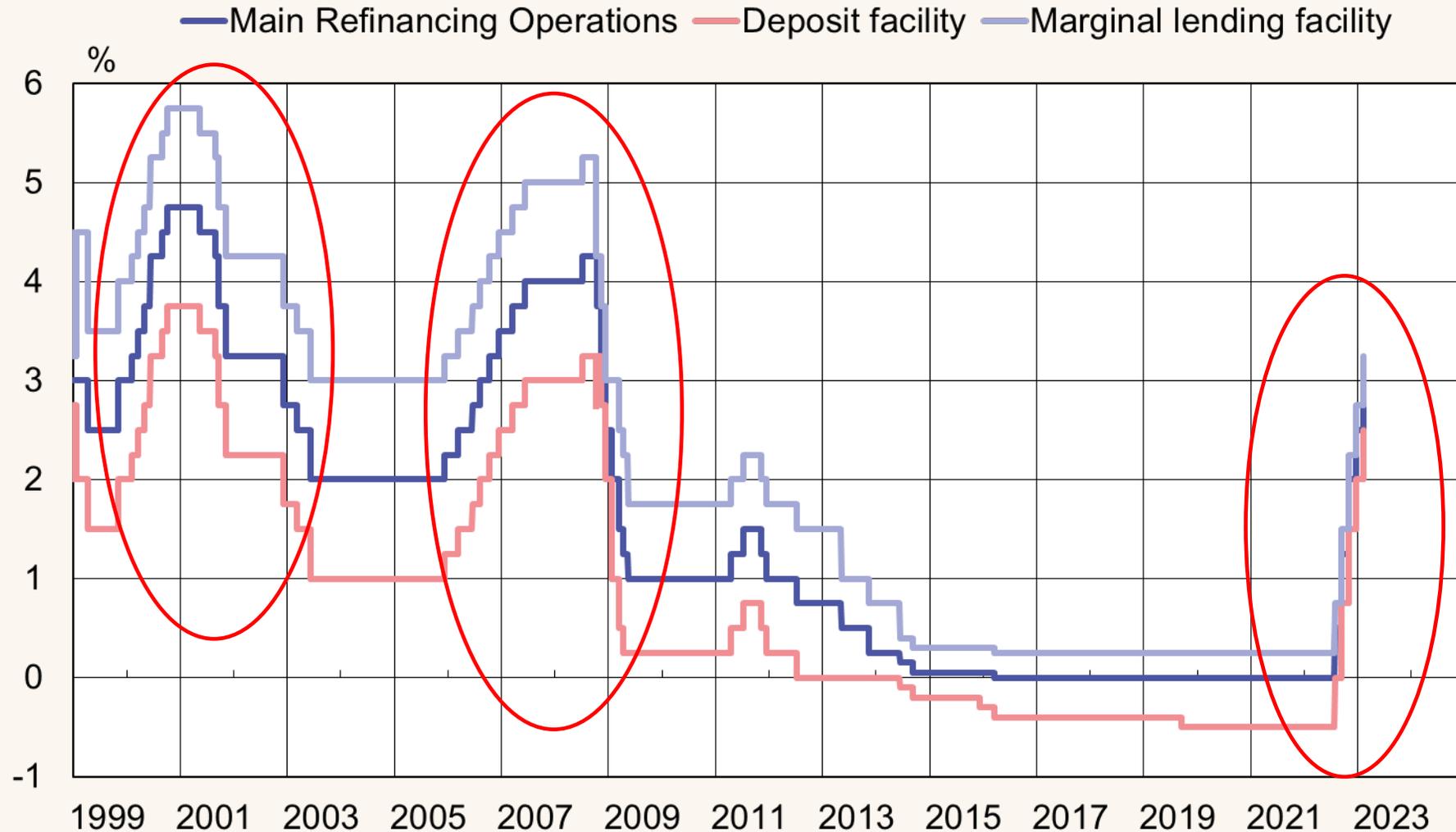
Monetary policy decisions 2022–2023

Governing Council monetary policy decisions 2022–2023

- ECB key interest rates raised by 300 bps (...more to come)
- Conclusion of net asset purchases 2022 and a reduction in APP reinvestments 03/2023
- Transmission Protection Instrument (TPI)
- Conclusion of targeted lending operations (TLTROs)
- Recalibration of the remuneration of minimum reserves
- Phase-out of pandemic collateral easing measures for credit operations
- Incorporation of climate change considerations in the monetary policy framework

Short-term interest rates

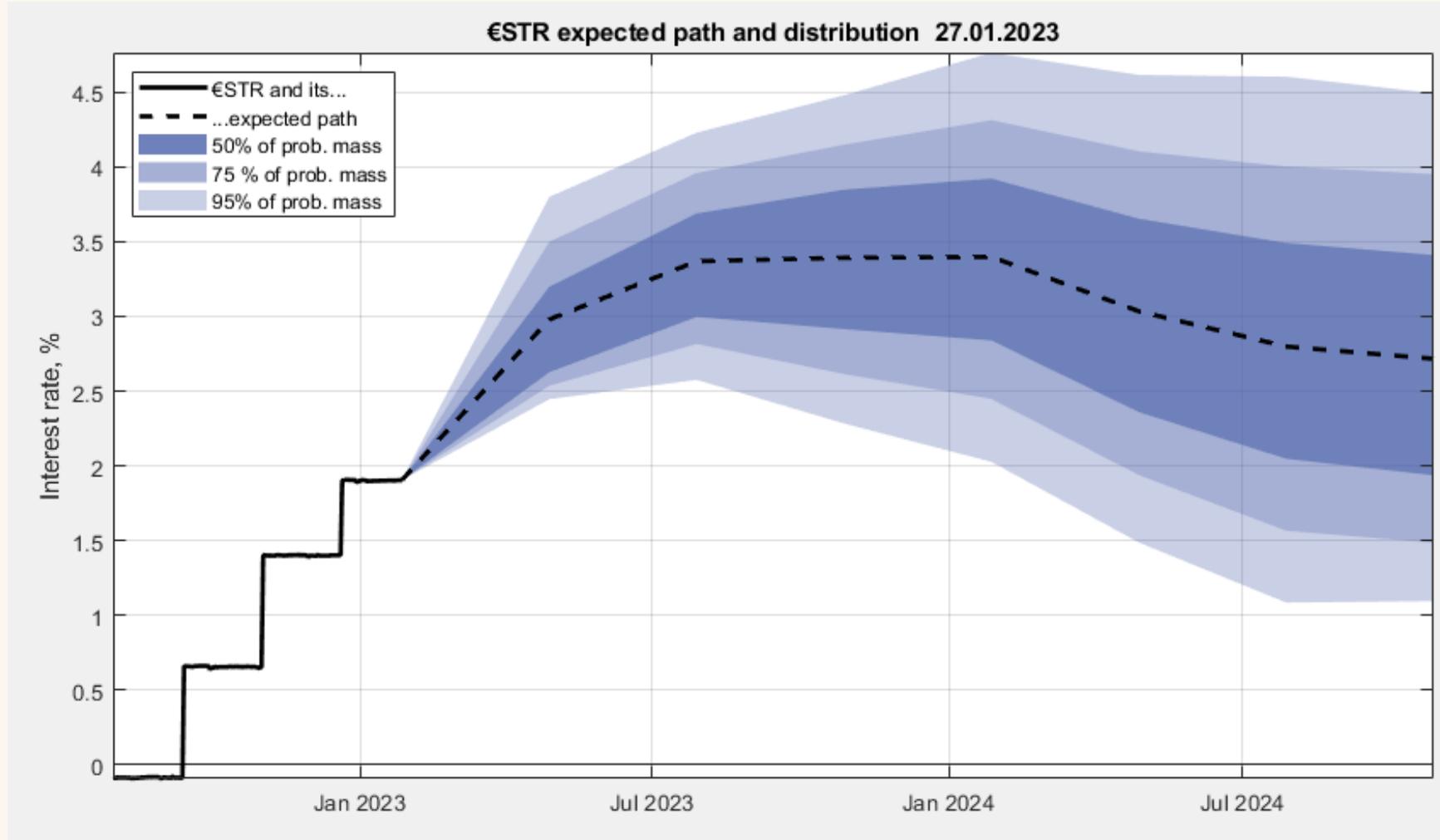
Development of ECB policy rates



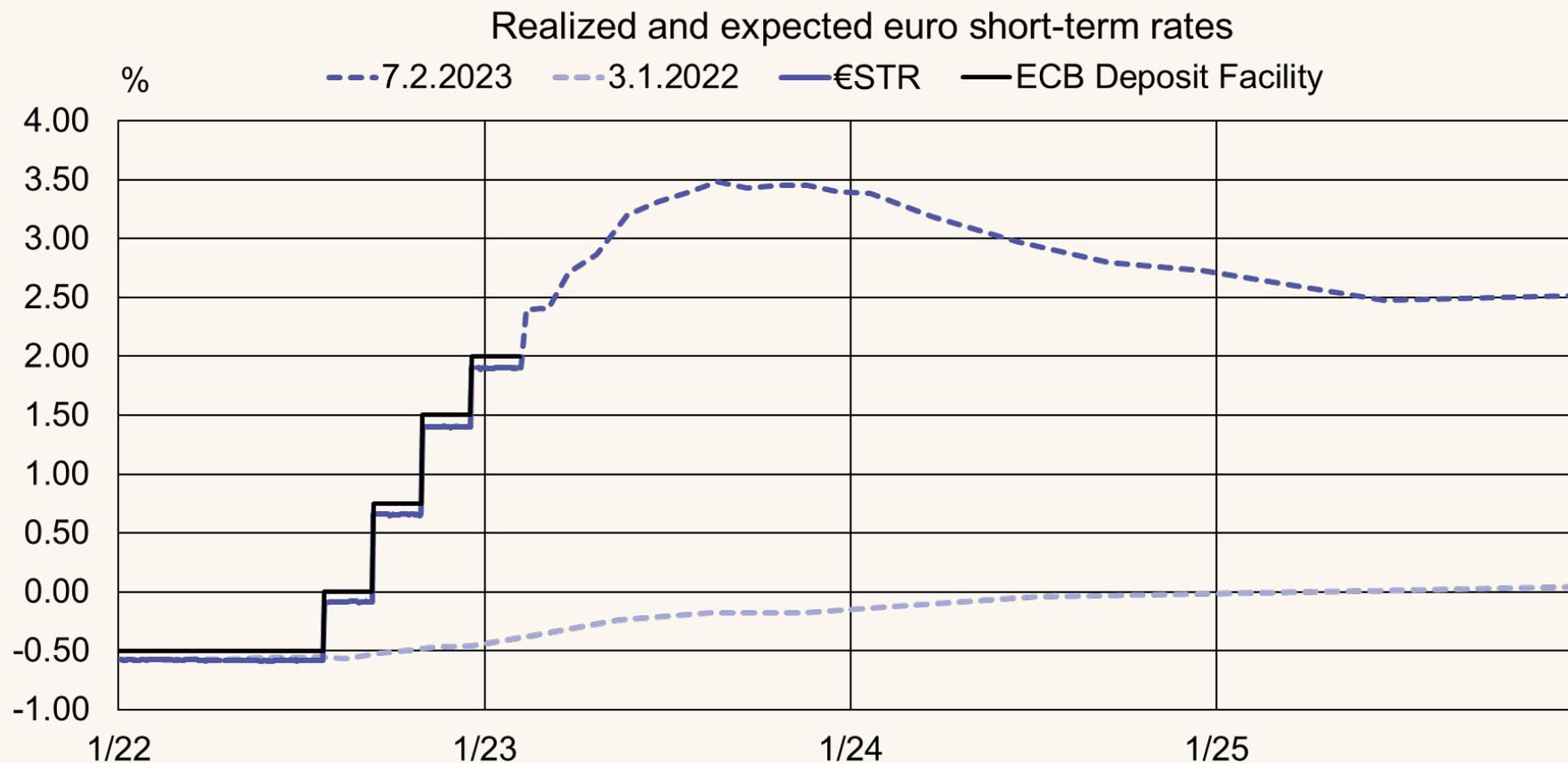
Source: ECB.

32422@ohjauskorot(en)

Uncertainty on the evolution of short-term market rates



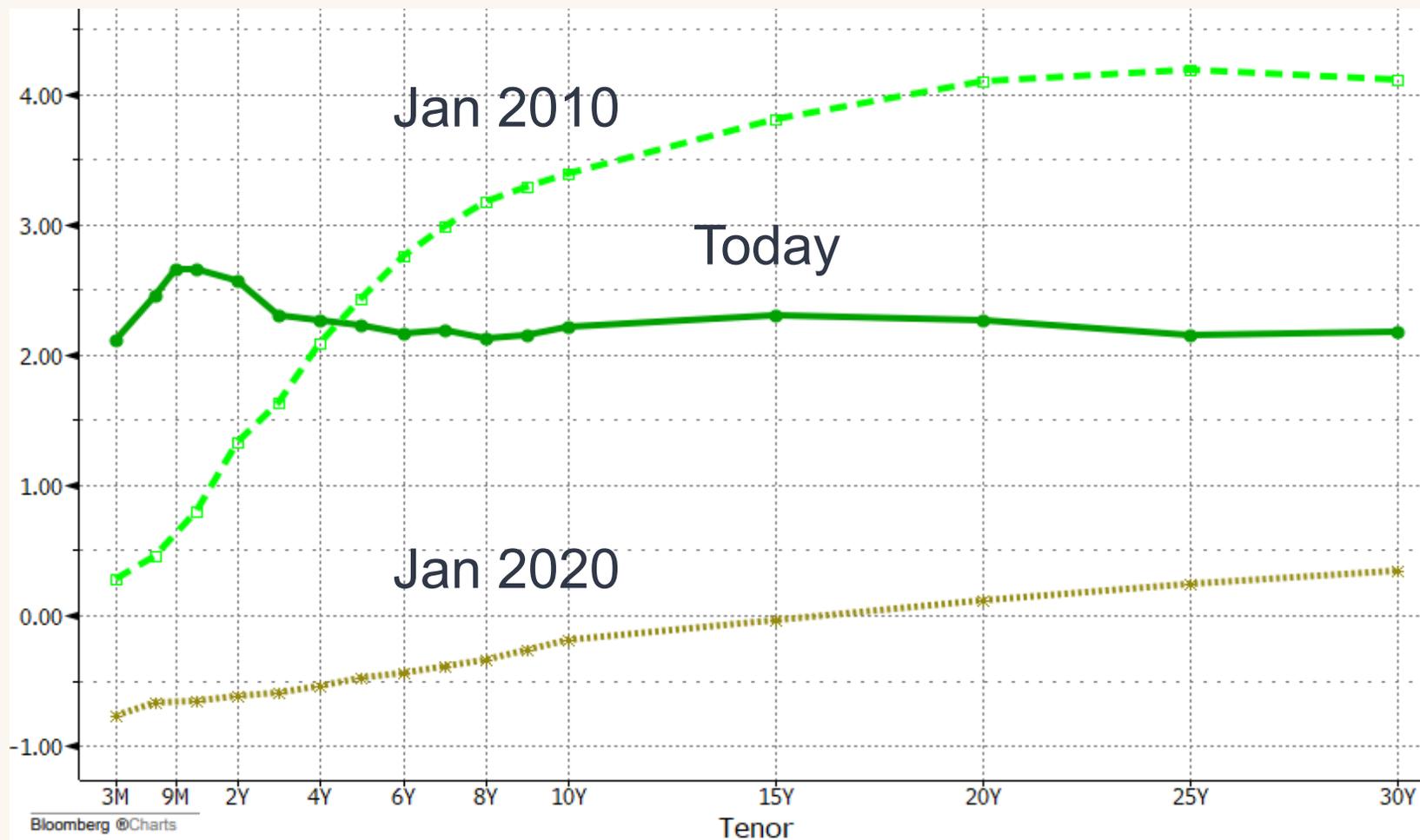
Change in the expectations over the last 12 months



Forward €STR-rates based on euro area OIS-rates.
Source: Bloomberg and Bank of Finland's calculations.

Bond rates and returns

German yield curve today vs. Jan 2020 and Jan 2010



(All) bonds trade with positive yields globally again

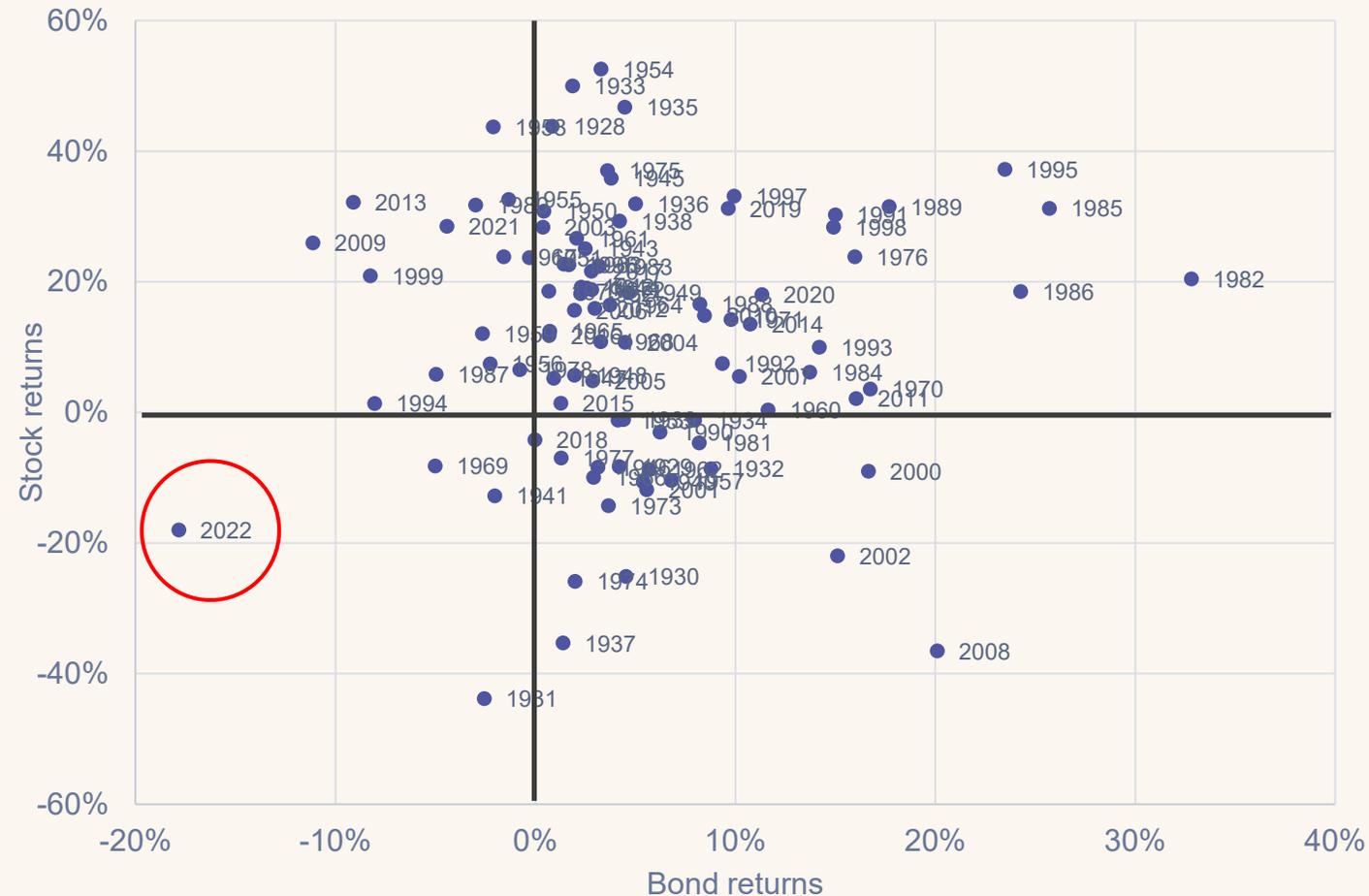
Global Agg Negative yielding debt (EUR tn)



Source: Bloomberg Global Aggregate index

Forecasting returns very challenging

Annual returns of S&P500 and US 10r Treasury since 1928





Thank you!

e-mail: tuomas.valimaki@bof.fi

Twitter: [@TuomasValimaki](https://twitter.com/TuomasValimaki)

bof.fi