



Finnish households' purchasing power is improving — The economy's long-term challenges are acute

Press conference

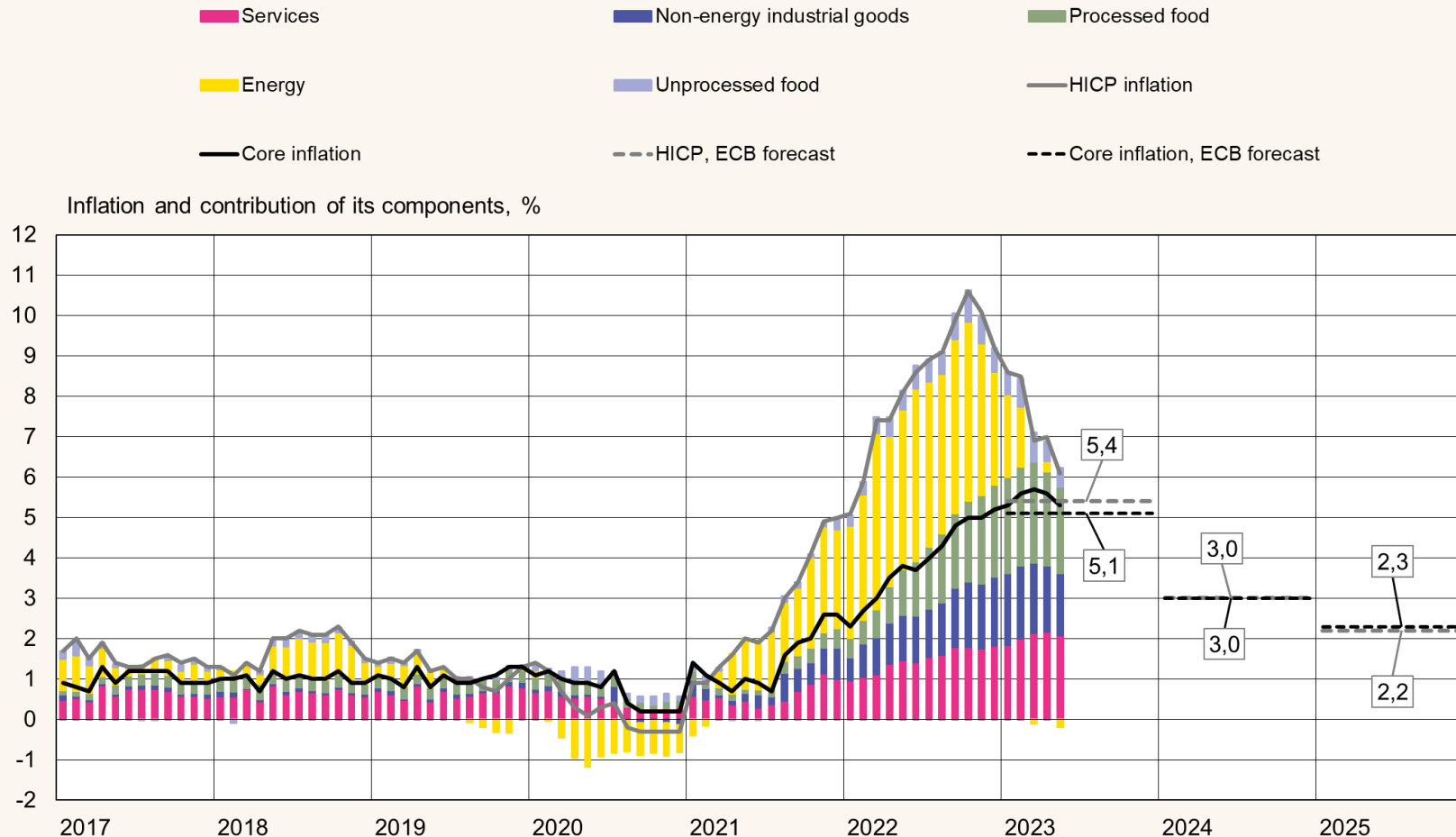
20 June 2023

Governor Olli Rehn
Suomen Pankki

Finnish households' real purchasing power is now improving as inflation slows

- Interest rates have been raised to stabilise inflation at its target.
- The rise in consumer prices last year was more of a strain on low and middle-income households than on high earners.
- The rapid growth in interest payments is particularly affecting middle and high-income households with major debts; however, they also have the means to smooth consumption over time.
- Finnish households' real purchasing power is starting to grow again due to slower inflation, negotiated wage rises and index adjustments to social benefits.
- Employment is expected to remain favourable relative to the business cycle.

Inflation is still too high – core inflation in particular proving sticky



Sources: Eurostat and ECB.

32426@YKHIkontrib(2)en

ECB Governing Council has raised policy rates to stabilise inflation at 2% over the medium term

1. The ECB Governing Council's interest rate decisions will ensure that policy rates are brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target and will be kept at those levels for as long as necessary.
2. The Governing Council's policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.
3. Assessment of the inflation outlook will be made in the light of incoming economic and financial data. Underlying inflation (excludes energy and food) and the strength of monetary policy transmission will also be monitored.

Prerequisites for long-term growth need attention

- The Bank of Finland's long-term scenarios suggest that population ageing and the standstill in the previously rising level of educational attainment will:
 - limit the availability of skilled labour, and
 - weaken growth prospects in innovation activity and corporate fixed investment.
- Universities have a key role to play, as they generate human capital and produce research and innovations.
- The demographic change is so significant that it will be very difficult to secure the prerequisites for growth without an increase in work-based immigration.

Taking action – a two-pronged approach is needed

1. Strengthening sustainable growth over the long term

- Investment in skills and education, incentives for employment
- Boosting research and development
- Smoother work-based and education-based immigration

2. Securing the sustainability of the public finances

- Return to spending rules and spending limits procedure
- Prioritisation to guarantee essential public sector duties
- Forward-looking fiscal adjustment plan



Summary

- Inflation is still too high. The ECB Governing Council has raised interest rates in a consistent manner to stabilise inflation at its target of 2% over the medium term.
- The Finnish economy will shrink this year. The downturn will remain short-lived, as lower inflation will support the real purchasing power of households.
- Decision-making in the Finnish public sector has focused on various short-term challenges. The economy's long-term challenges are now acute.
- The Government Programme establishes a foundation for strengthening the public finances and prerequisites for sustainable growth.



Thank you!

suomenpankki.fi