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# Monetary policy and economic outlook

Euro & talous 13 Dec 2016





# On the economic outlook for the euro area and monetary policy decisions by the ECB Governing Council last Thursday



## Euro area growth outlook

***Economic expansion in euro area expected to proceed at a moderate but firming pace.***

***Monetary policy supports euro area demand and has facilitated deleveraging.***

***Improvements in corporate profitability and favourable financing conditions boost investment.***

***Eurosystem staff macroeconomic projections, December 2016:***

- ***GDP growth***    ***2016: 1.7%***  
                          ***2017: 1.7%***  
                          ***2018: 1.6%***  
                          ***2019: 1.6%***



# Euro area unemployment rate has gradually fallen



Source: Macrobond.



## Euro area inflation outlook

***Inflation (HICP) was faster in November than in previous months, but this reflected to a large extent the increase in energy inflation.***

***No signs yet of a convincing upward trend in underlying inflation.***

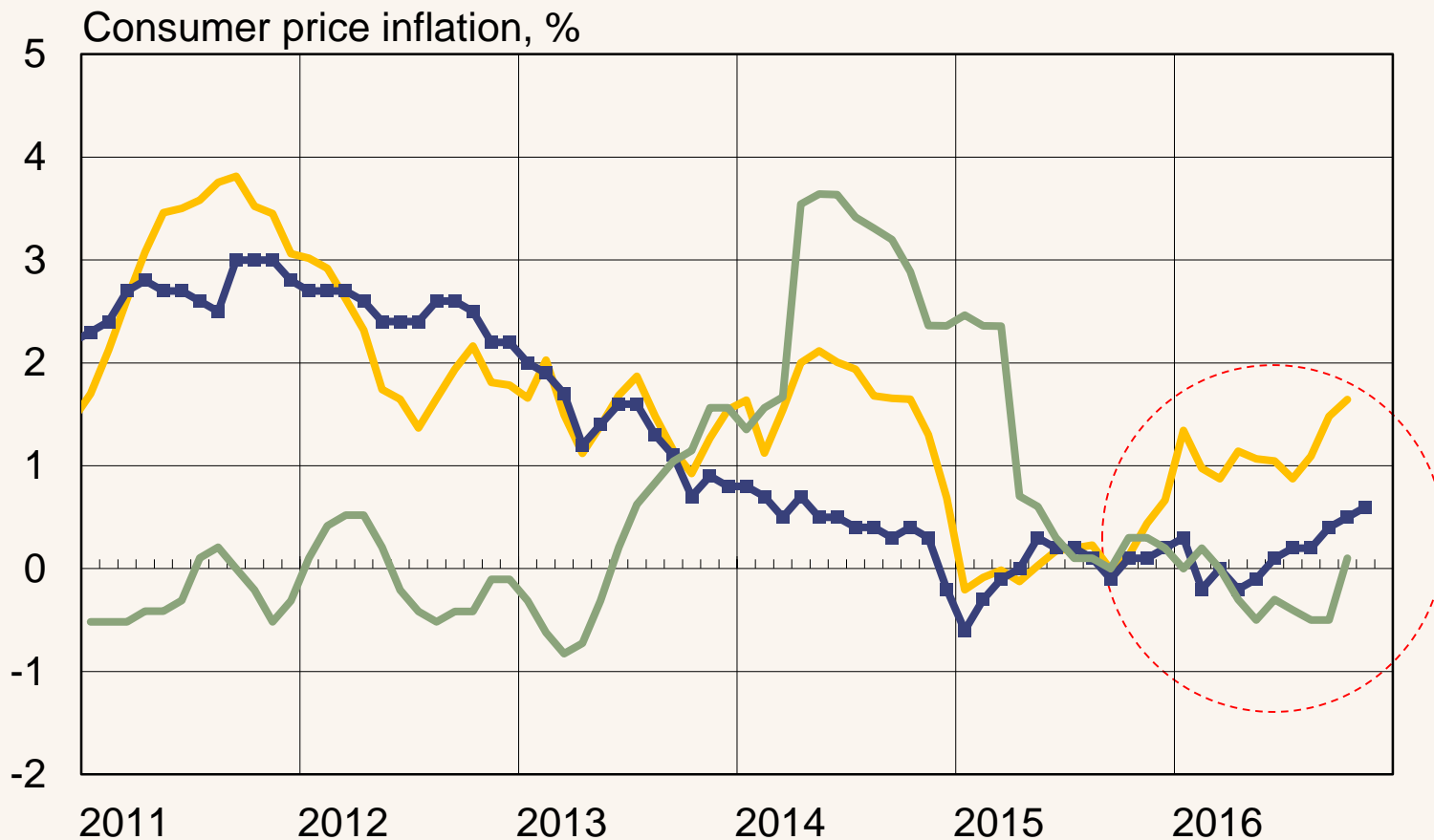
***Eurosystem staff macroeconomic projections, December 2016:***

- ***Inflation***
  - 2016: 0.2%***
  - 2017: 1.3%***
  - 2018: 1.5%***
  - 2019: 1.7%***



## Inflation in major economic areas

— United States — Euro area — Japan



Source: Macrobond.



# ECB Governing Council on 8 Dec 2012: Continued accommodative monetary policy will support growth

- ***ECB Governing Council decided to continue the expanded asset purchase programme until the end of 2017***
  - and, if necessary, beyond, until the Governing Council sees a sustained adjustment in the path of inflation consistent with its aim.
  
- ***Other measures in force***
  - Low monetary policy interest rates
  - Targeted longer-term refinancing operations
  
- ***Forward guidance***
  - Monetary policy will remain accommodative for an extended period of time.



## ECB Governing Council on 8 Dec 2012: Expanded asset purchase programme will be continued

- *Purchases will continue at a monthly pace of EUR 80 billion until 31 March (by virtue of earlier decision).*
- *Thereafter, purchases will continue at EUR 60 billion per month until the end of 2017 (according to the decision of last Thursday).*
- *If necessary, more securities can be purchased and/or they can be purchased for a longer period.*

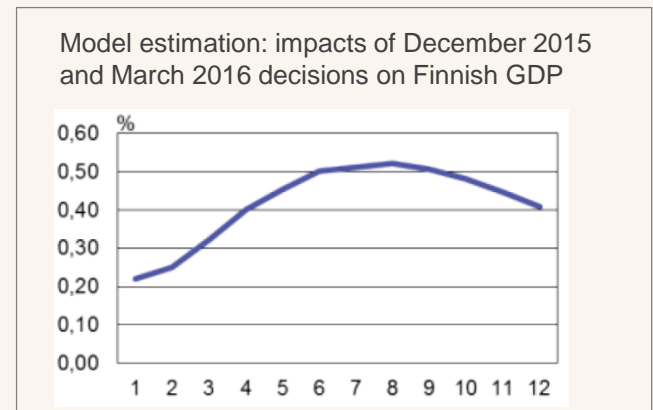




# Effects of monetary policy in Finland

- Supports euro area economy and thus Finnish exports
- Lowers financing costs in Finland
  - ⇒ Supports consumption and investments
- M. Haavio, J. Kilponen, T. Kortela and M. Sariola:  
'ECB's extended asset purchase programme has significantly bolstered Finnish growth'

[www.eurojatalous.fi](http://www.eurojatalous.fi)

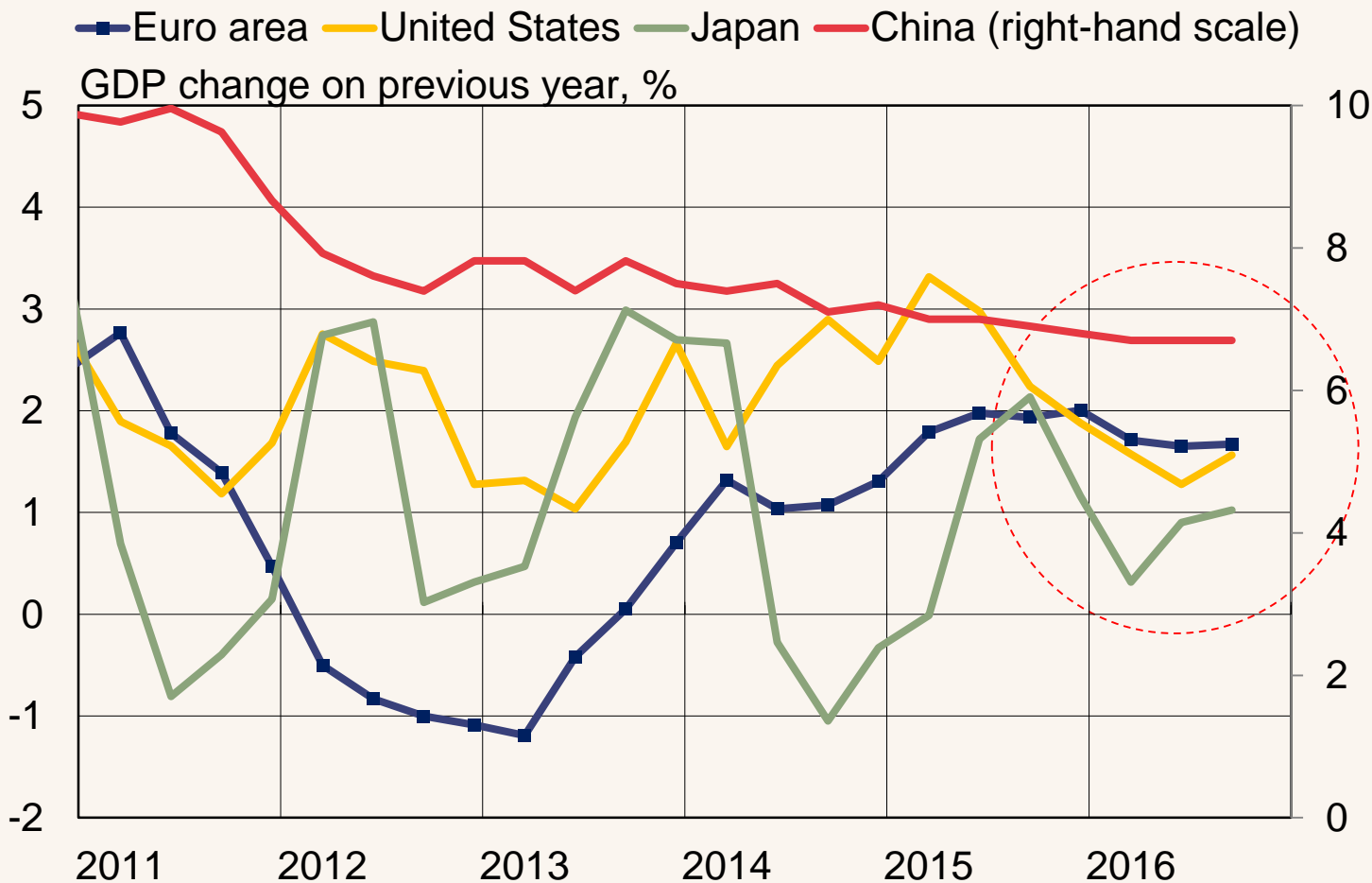




## **Global economy: growth continued, some uncertainties are political**



# Global growth has continued, albeit at a slower pace than before



Sources: Macrobond and OECD.



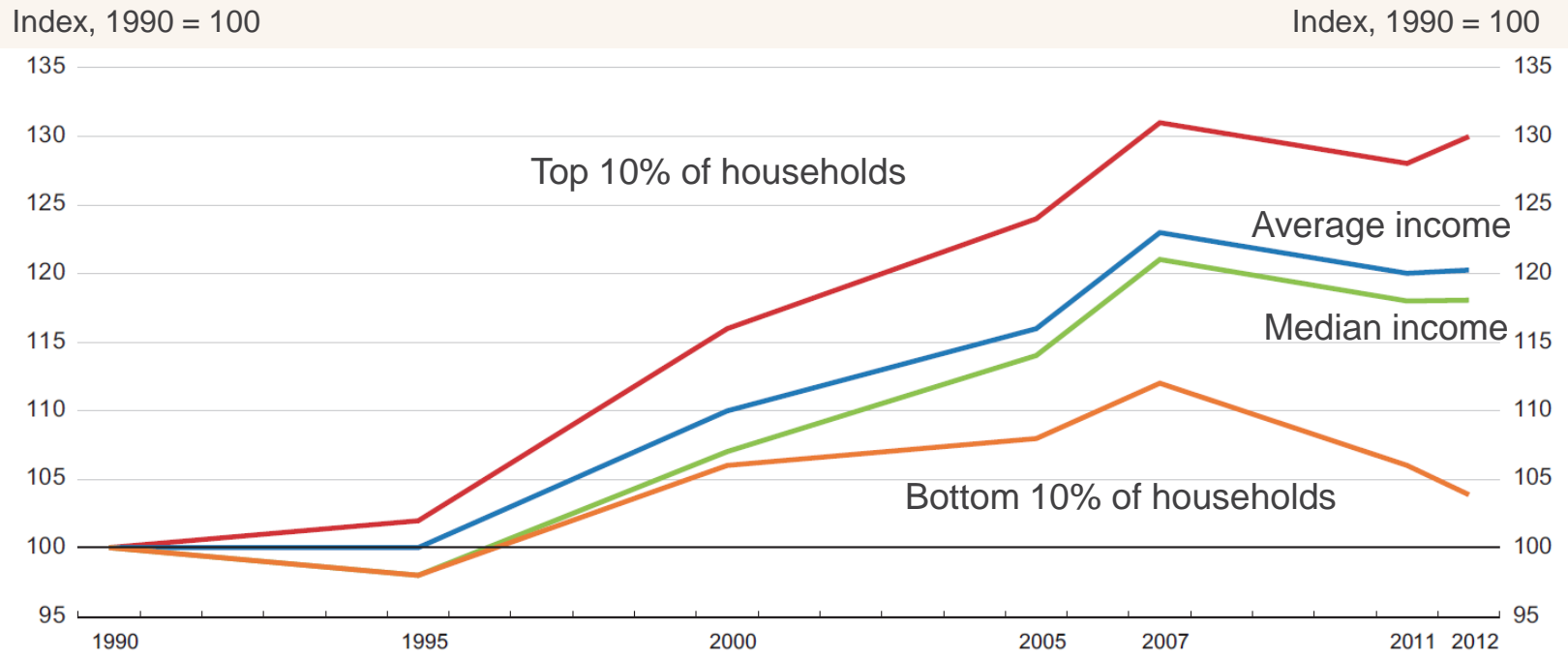
# Economic outlook contains uncertainties related to policy choices

- *US economic policy?*
- *UK economic relations after Brexit?*
- *Uncertainties also in other countries*
  
- *Supporters of globalisation and international relations forced onto the defensive*
- *But there is a great need for international cooperation in many areas: climate change, refugee issue, economic developments*



# Major topic of discussion: Globalisation and inequality. Lack of opportunities for many individuals.

## Households' disposable income, OECD average



Source: OECD (OECD Economic Outlook, 1/2016, p. 65).

Note: The figure depicts the unweighted average of the 17 OECD countries for which data are available: Canada, Denmark, Finland, France, Germany, Greece, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom and the United States. Some data points have been interpolated or use the value from the closest available year.

Source: OECD estimations based on OECD (2015), *In It Together: Why Less Inequality Benefits All*; and OECD Income Distribution database.



## Technology and globalisation have created prosperity but also a need to provide support for those who will lose out in the process

- *Technological advances and globalisation have generated economic prosperity*
- *Advanced economies experience an increasing need to control negative effects on different population groups*
  - *Necessary to support economic readjustment and care for those who will lose out in the process*
  - *Educational system, social security, labour market institutions*



## Inclusive growth. Bank of Finland publications

- Lauri Kajanoja: ***Mukaan ottava talouskasvu Suomessa (Inclusive growth in Finland)***
- Juhana Hukkinen ja Lauri Vilmi: ***Tuloerot kehittyneissä maissa, syyt ja seuraukset (Income inequality in advanced economies, cause and effect)***
- Meri Obstbaum ja Juuso Vanhala: ***Polarisaatio Suomen työmarkkinoilla (Polarisation on the Finnish labour market)***
- Petri Mäki-Fränti: ***Alueelliset tuloerot Suomessa 2016 (Regional income differences in Finland 2016)***
- Jarkko Kivistö: ***Suomen rakennemuutos alueiden näkökulmasta (Regional perspective to restructuring in Finland)***
- Karlo Kauko, Pertti Pylkkönen, Eero Savolainen, Jukka Vauhkonen: ***Pankkikilpailun merkityksestä PK-yritysten rahoituksen saatavuudelle (On the importance of competition between banks for SME's access to funding)***



**Finnish economy returned to growth.  
There has been progress, but some  
problems still need to be resolved.**





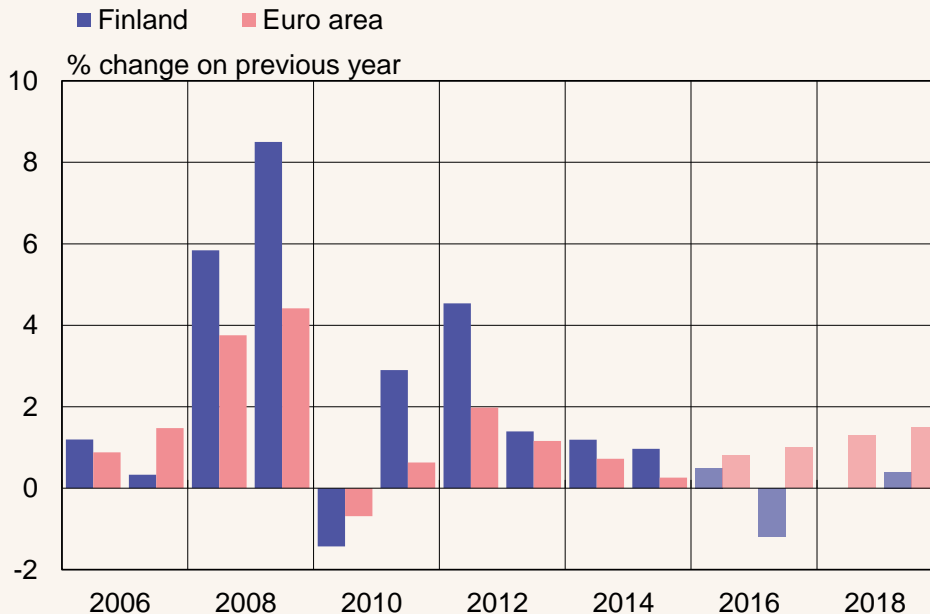
## Three comments

- ***On competitiveness and the Competitiveness Pact***
- ***On future fiscal pressures***
- ***On the importance of new businesses for productivity and employment growth***



# Advances in competitiveness

## Unit labour costs



Sources: Eurostat, ECB and calculations by the Bank of Finland.

- ***Competitiveness Pact reducing labour costs***
- ***Growth in unit labour costs much less than rest of euro area***
- ***Demand for labour growing***
- ***Cost reductions will partly pass through to prices***
- ***Both exports and investment picking up***



# Finland's economy growing, but public finances remain troubled

- *Public debt is growing partly due to unemployment*
- *New assessment of fiscal sustainability gap 3%*
  
- *Burden of the following costs is being transferred to today's youth*
  - *Costs of nursing the elderly*
  - *Pension costs for older generations*
  - *Costs of servicing the growing public debt*
- *Increasing number of young people not in employment, education or training*
- *Due to the above, measures are still needed to strengthen the public finances.*



# Good conditions for company start-ups and equal possibilities to grow

## *Productivity and new jobs:*

- *Labour productivity often higher than average in young companies*
- *Gradual renewal in established companies most important source of productivity growth*
- *Most jobs are created in a small group of rapidly growing, often young companies*
- *Significance of SLUSH and new companies in the economy*



# Finnish economy's capacity for renewal creates productivity and jobs





**Thank you!**