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ECB to continue highly accommodative monetary policy

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Contents

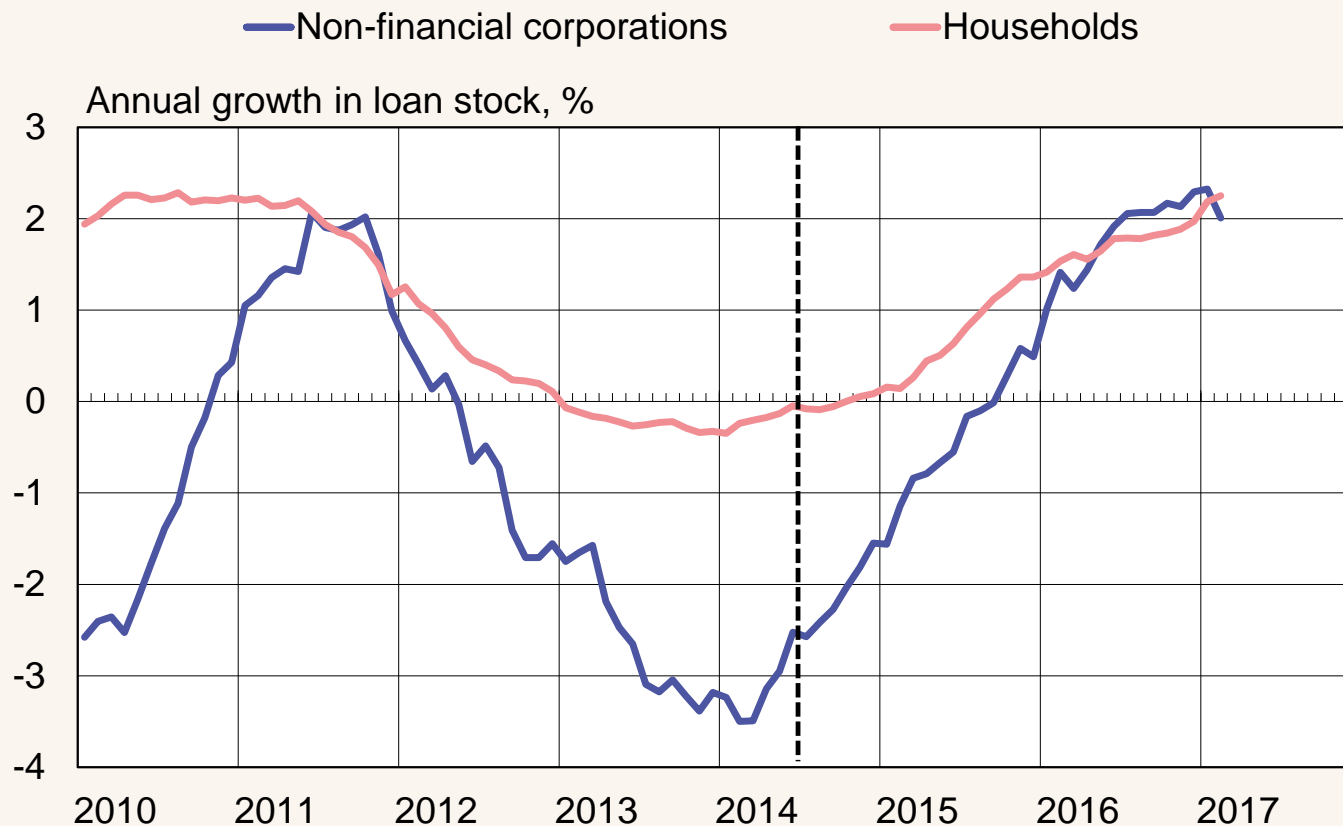
- 1. Highly accommodative monetary policy***
- 2. Moderate outlook for inflation***
- 3. Outlook for monetary policy***
- 4. Finnish economic outlook improved***



Highly accommodative monetary policy in the euro area



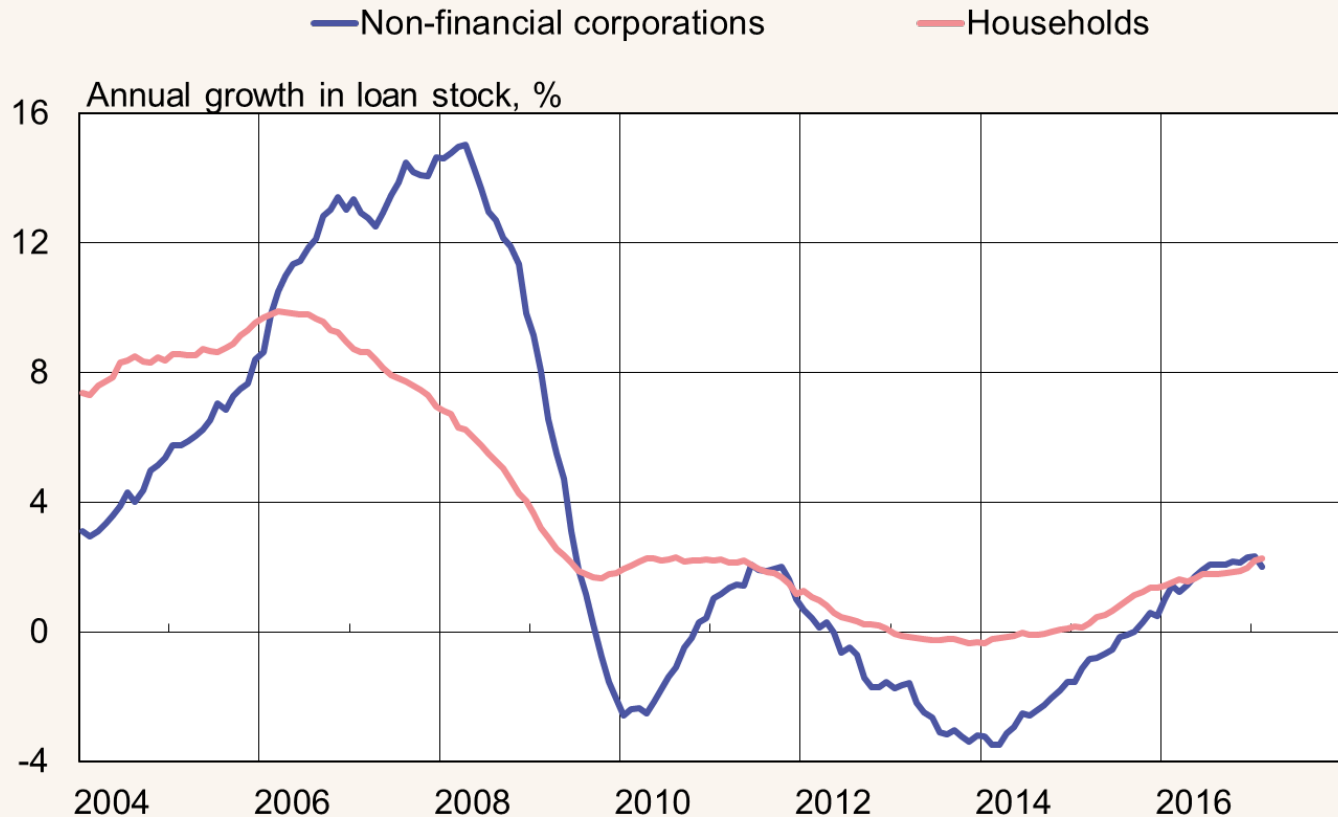
Loan stocks growing...



Sources: ECB and Macrobond.
Adjusted for loan sales securitisation.



...but still far from pre-crisis levels



Sources: ECB and Macrobond.
Adjusted for loan sales securitisation.



Market-based financing costs down

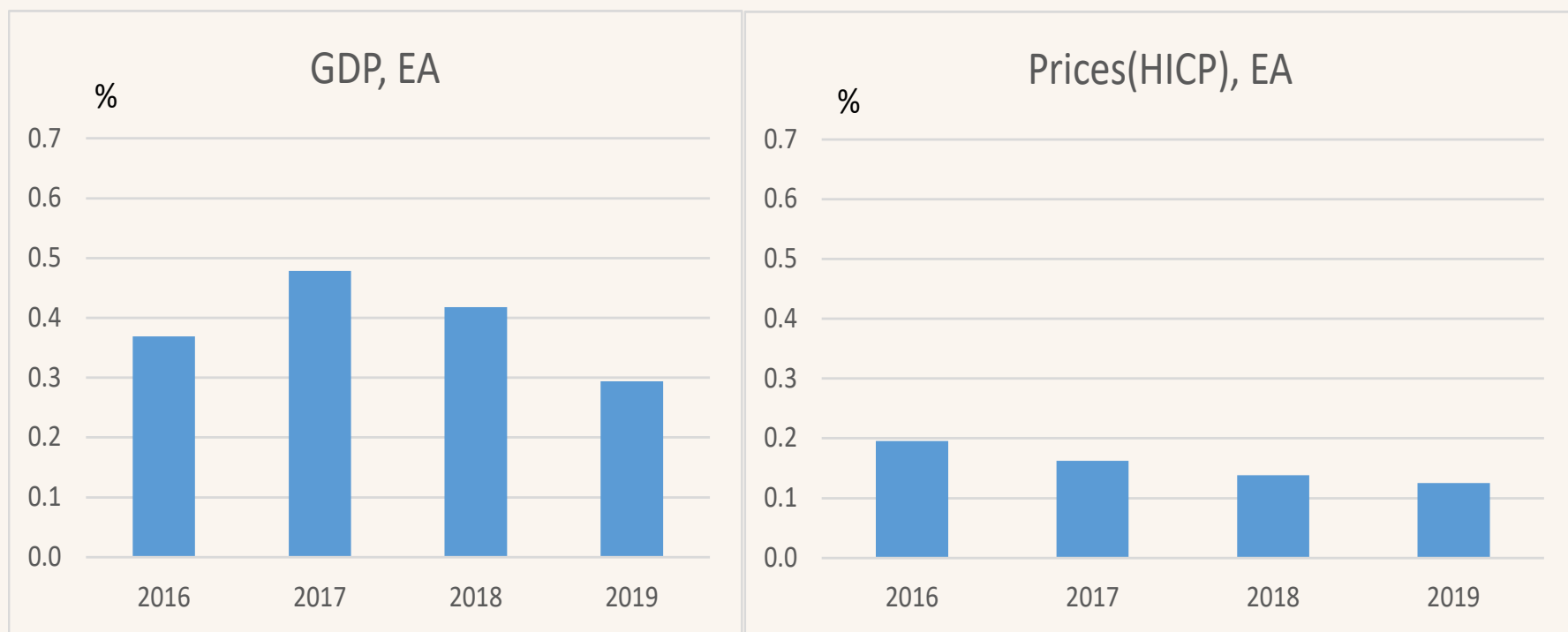
Corporate bond yields



Source: Macrobond.



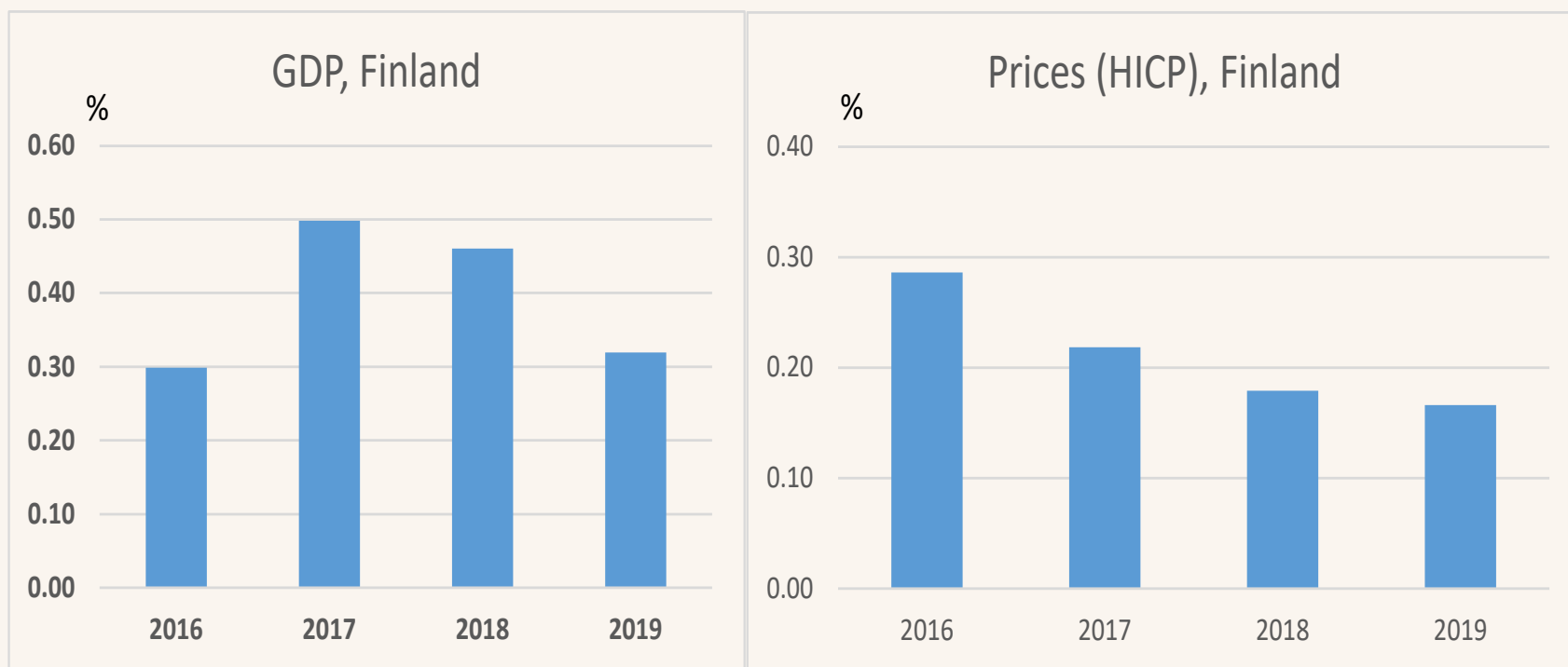
Effects of ECB December 2015 and March 2016 decisions in the euro area



Source: Bank of Finland, www.eurojatalous.fi



Effects on the Finnish Economy



Source: Bank of Finland, www.eurojatalous.fi



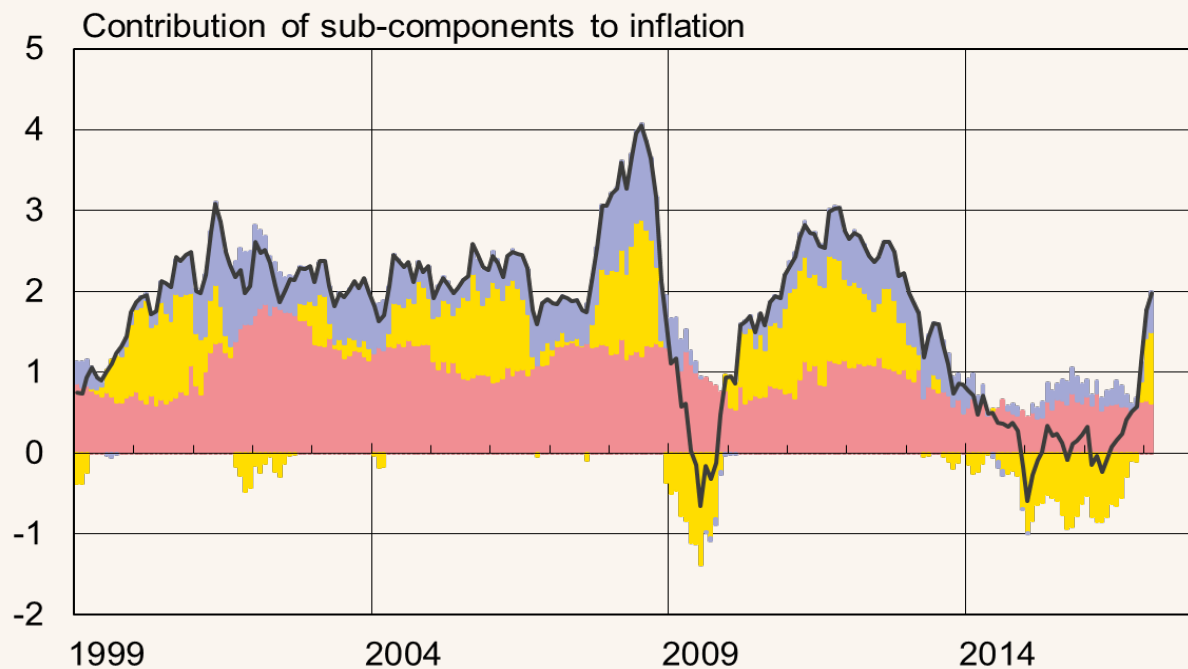
Moderate outlook for inflation in the euro area



Energy price fluctuation driving euro area consumer prices

Inflation in the euro area

- Food (processed and unprocessed)
- Energy
- Core inflation (incl. services and non-energy industrial goods)
- HICP, total, %

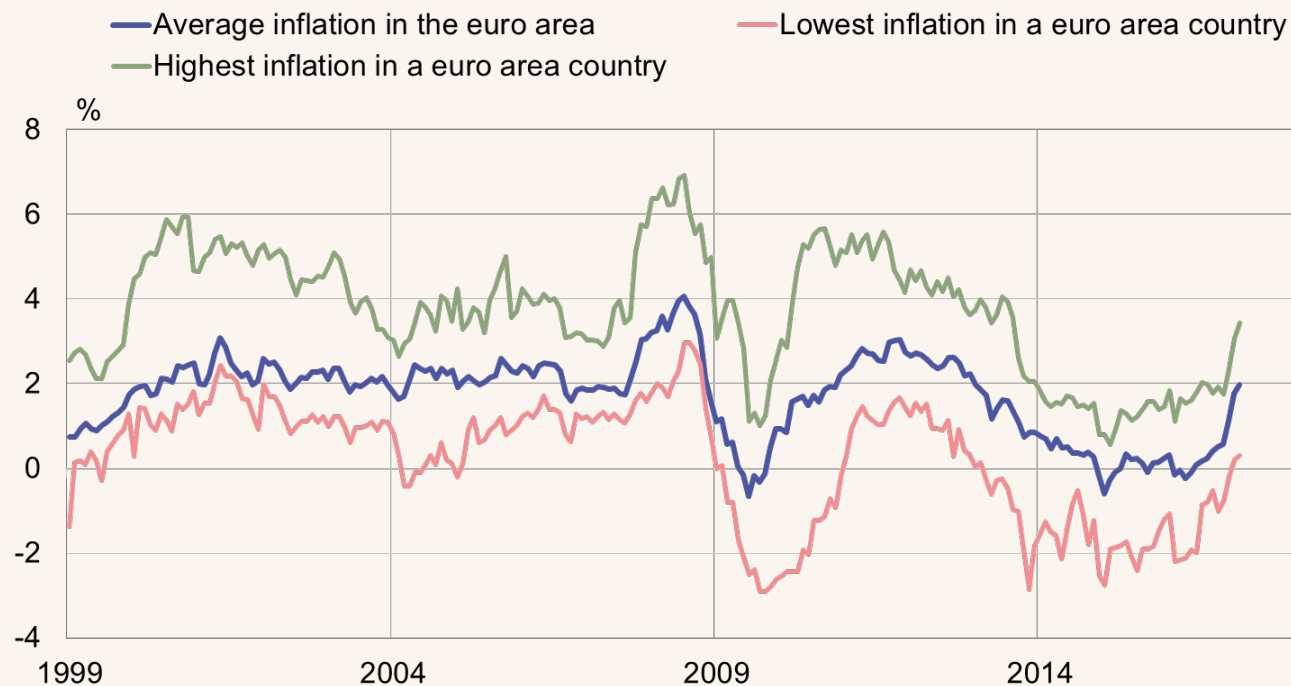


Source: Eurostat.



Country differences in inflation in early 2017 are normal

Inflation in the euro area



Sources: Eurostat and calculations by the Bank of Finland.



Inflation expectations in the euro area remain moderate

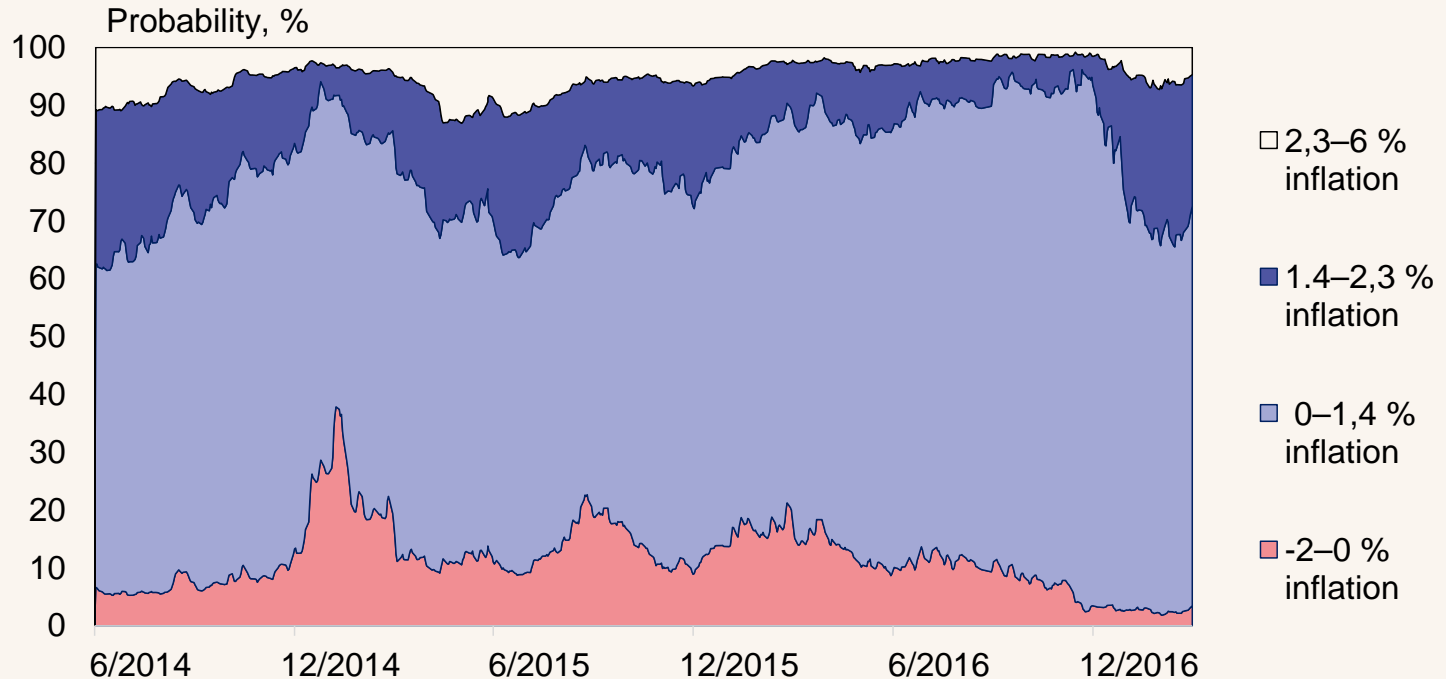


Sources: Bloomberg and ECB.



Deflation less likely

Probability distribution for 5-year inflation expectations, moving average over 3 observations



Sources: Bloomberg and the Bank of Finland calculations.

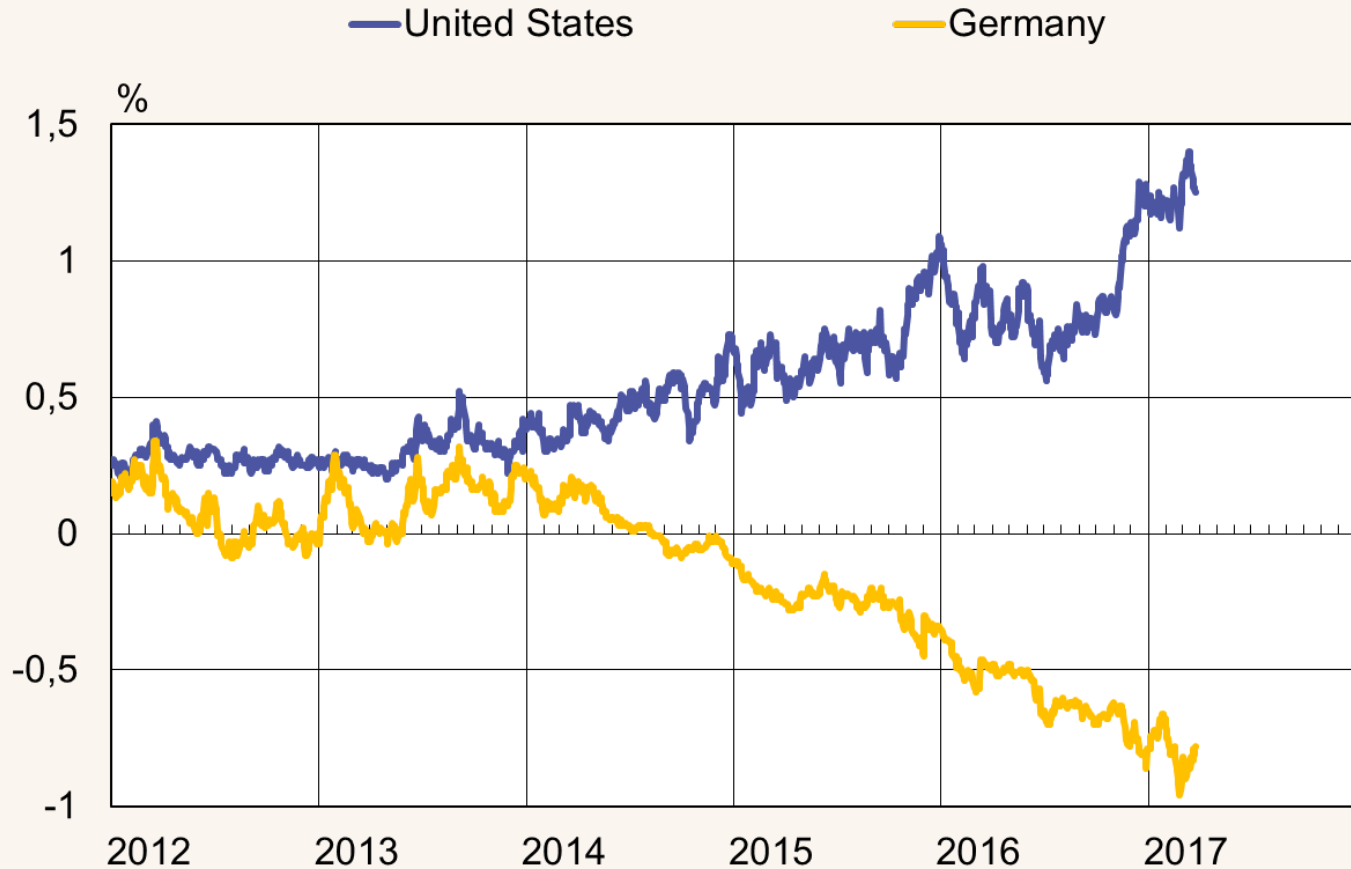


Outlook for monetary policy in the euro area



Interest rate differentials grow after US monetary policy tightens...

2-year government bond yields

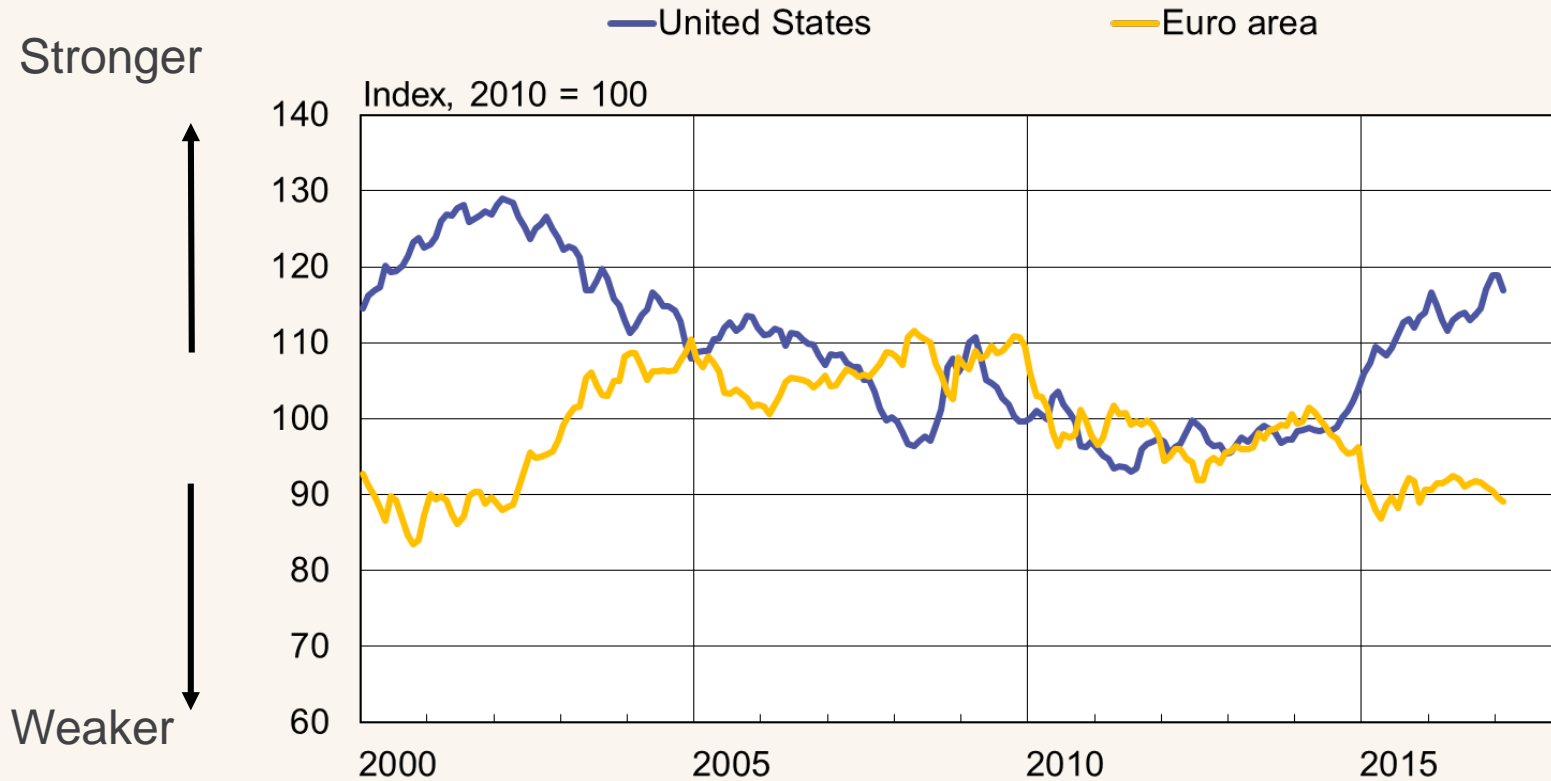


Source: Macrobond.



... and US dollar appreciates

Real effective exchange rates of the euro and the US dollar

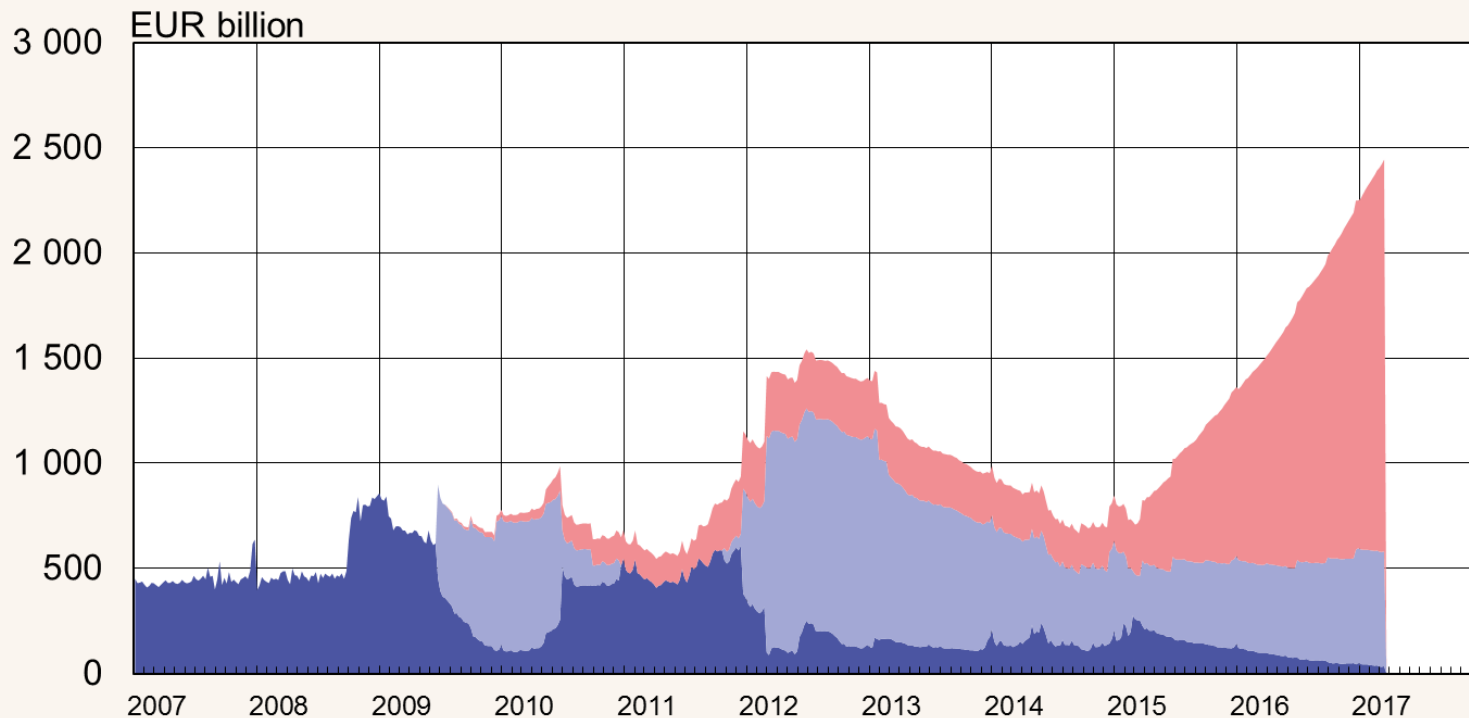


Sources: BIS and Macrobond.



Eurosystem lending operations and asset purchases

- Securities held for monetary policy purposes
- Targeted and other monetary policy refinancing operations of at least 12 months
- Regular and other short-term monetary policy operations



Sources: ECB and Macrobond.



Governing Council decided on 9 March 2017 to continue highly accommodative monetary policy stance

- 1. APP purchases are intended to continue until the end of 2017, or beyond, if necessary, until there is a sustained adjustment in the path of inflation consistent with the inflation target.***



Four requirements of the price stability objective

1. Price stability has been defined and is measured **over the medium term.**
2. The path of inflation needs to converge on the objective **in a durable way**; a mere passing increase in prices is not enough.
3. Inflation must be **self-sustained** and remain in line with the objective even after the current highly accommodative monetary policy stance comes to an end.
4. The objective has been defined for average **inflation in the euro area as a whole**; inflation in individual countries can diverge markedly from the average.



The Governing Council decided on 9 March 2017 to continue its highly accommodative monetary policy stance

1. APP purchases will continue until the end of 2017, and beyond, if necessary, until there is a sustained adjustment in the path of inflation consistent with the inflation target.
2. ***Policy rates to remain low well past the horizon of net asset purchases.***



Forward guidance on interest rates from the March meeting

The Governing Council expects key ECB interest rates to remain at 1) present or 2) lower levels for an extended period of time and well past the horizon of net asset purchases.

- 1. The current monetary policy stance is suitable and there is no cause to predict rate decreases, but***
- 2. as price and economic developments can change, so there is no cause to exclude rate decreases from Governing Council communications.***

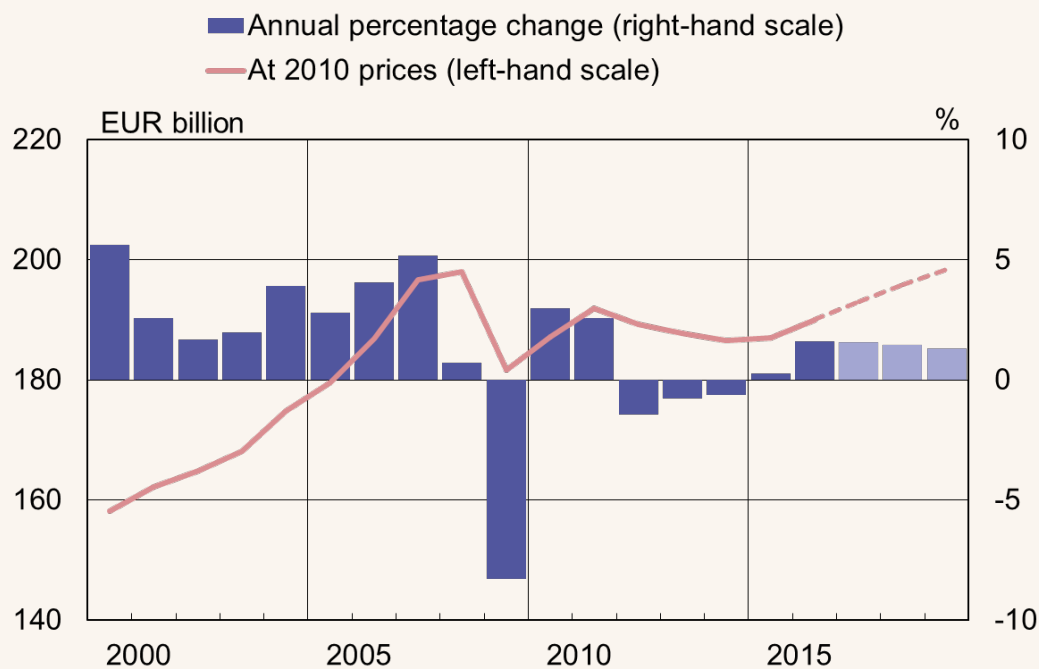


Finnish economic outlook improved



Forecast update on 17 March: Finnish economic growth continues, if slower than in earlier years

Total real GDP



Sources: Statistics Finland and Bank of Finland.

	Change in real GDP, %	
	Forecast 3/2017	Forecast 12/2016
2017	1.6	1.3
2018	1.5	1.2
2019	1.3	1.2



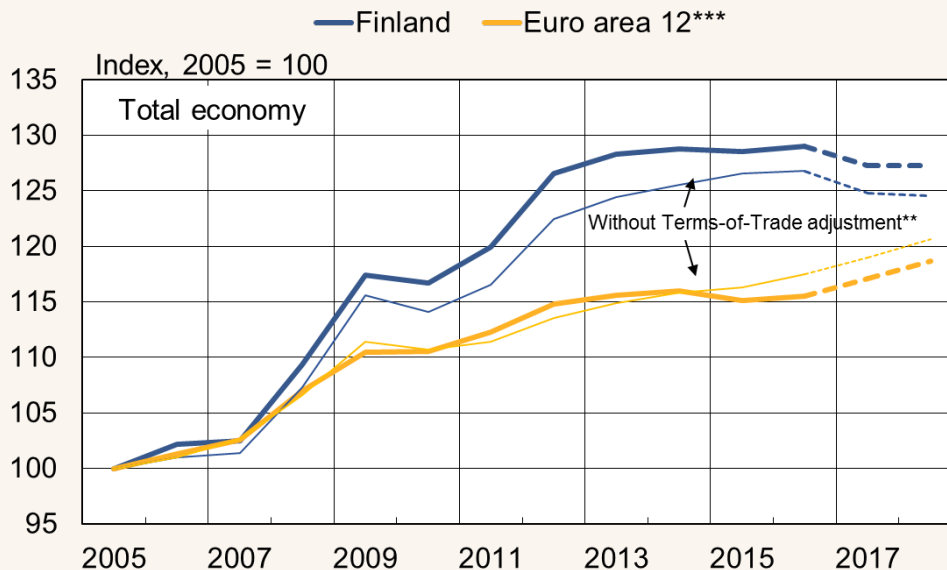
Finnish exports forecast to pick up

- *Finnish economy benefits from*
 - *Accommodative monetary policy*
 - *Growth in euro area and world economy*
- *Private consumption and investment continue to support growth*
- *Exports forecast to pick up*
- *Fiscal deficit improved in 2016*
- *In the next few years, deficit not forecast to change significantly*



Cost-competitiveness to improve in 2017-2018

Terms-of-Trade-adjusted unit labour costs*



*) Compensation per employee / national income

**) First 12 countries to have joined the euro area

Forecasts: Bank of Finland (for Finland) and European Commission (for EA12).

Sources: Statistics Finland, Bank of Finland and European Commission.

Improvements 2017-2018

- Competitiveness Pact
- Assumption of wage moderation
- Increasing labour costs in other countries



International trade as a source of growth

- ***Of key importance to stronger economic growth in the euro area and Finland is that international trade should continue to be free and undisturbed.***
- ***The benefits of globalisation and free trade have not been distributed equally, and the costs of adjustment have been high.***
- ***Income inequality in the advanced economies has increased over recent decades, and many people have lost out as economic structures have changed.***



We must ensure that economic inequalities and the narrowing of opportunities do not increase any further

- ***Education is key. It also supports labour mobility, and hence employment.***
- ***Taxation, government transfers and public services also play an important role in employment.***
- ***Developing competition-friendly regulation and an efficient financial system also support the scope for growth and the ability of economies to adapt to changing circumstances.***