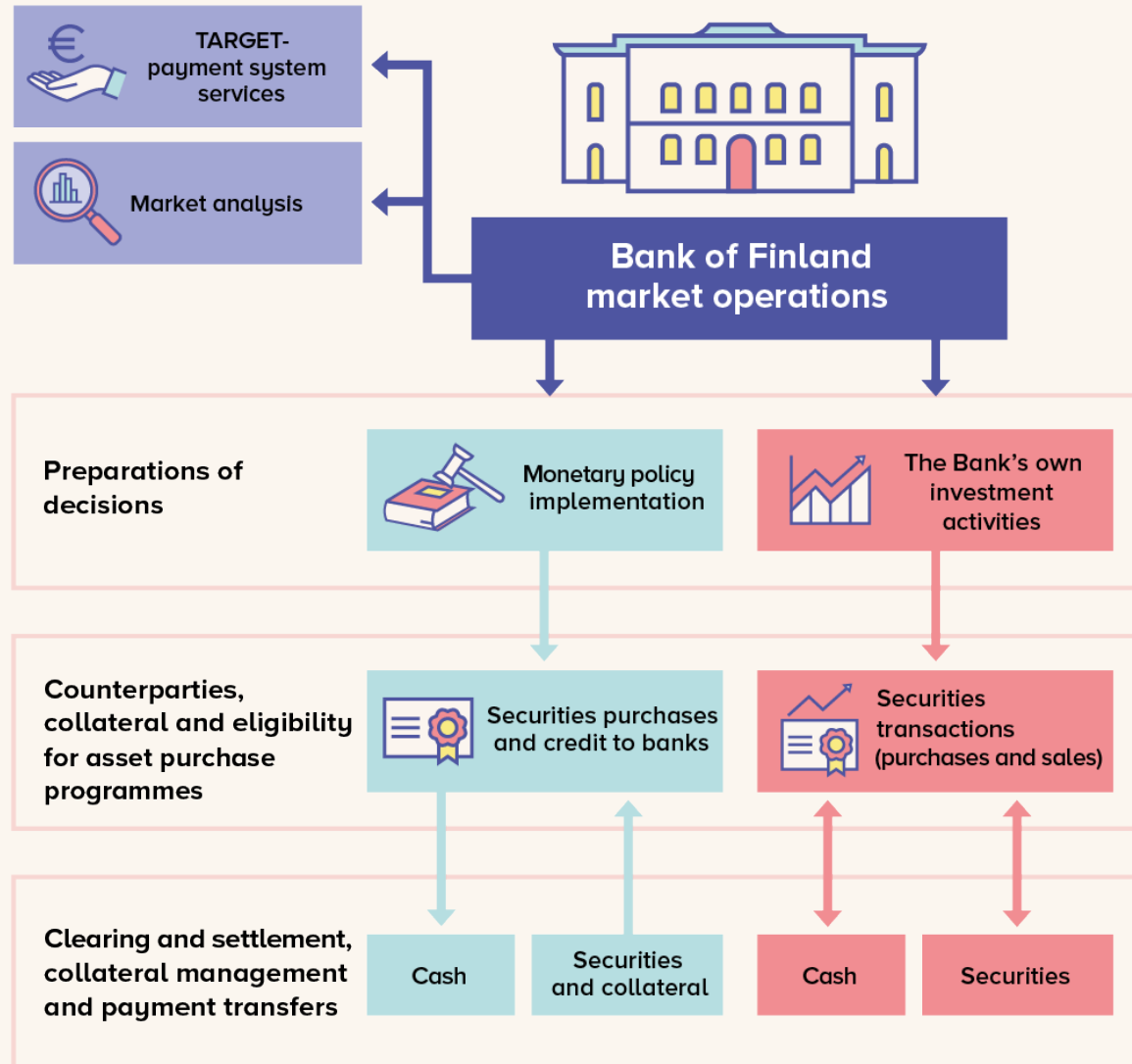




Economic crises have expanded the frontiers of monetary policy implementation

Press conference 25 August 2020

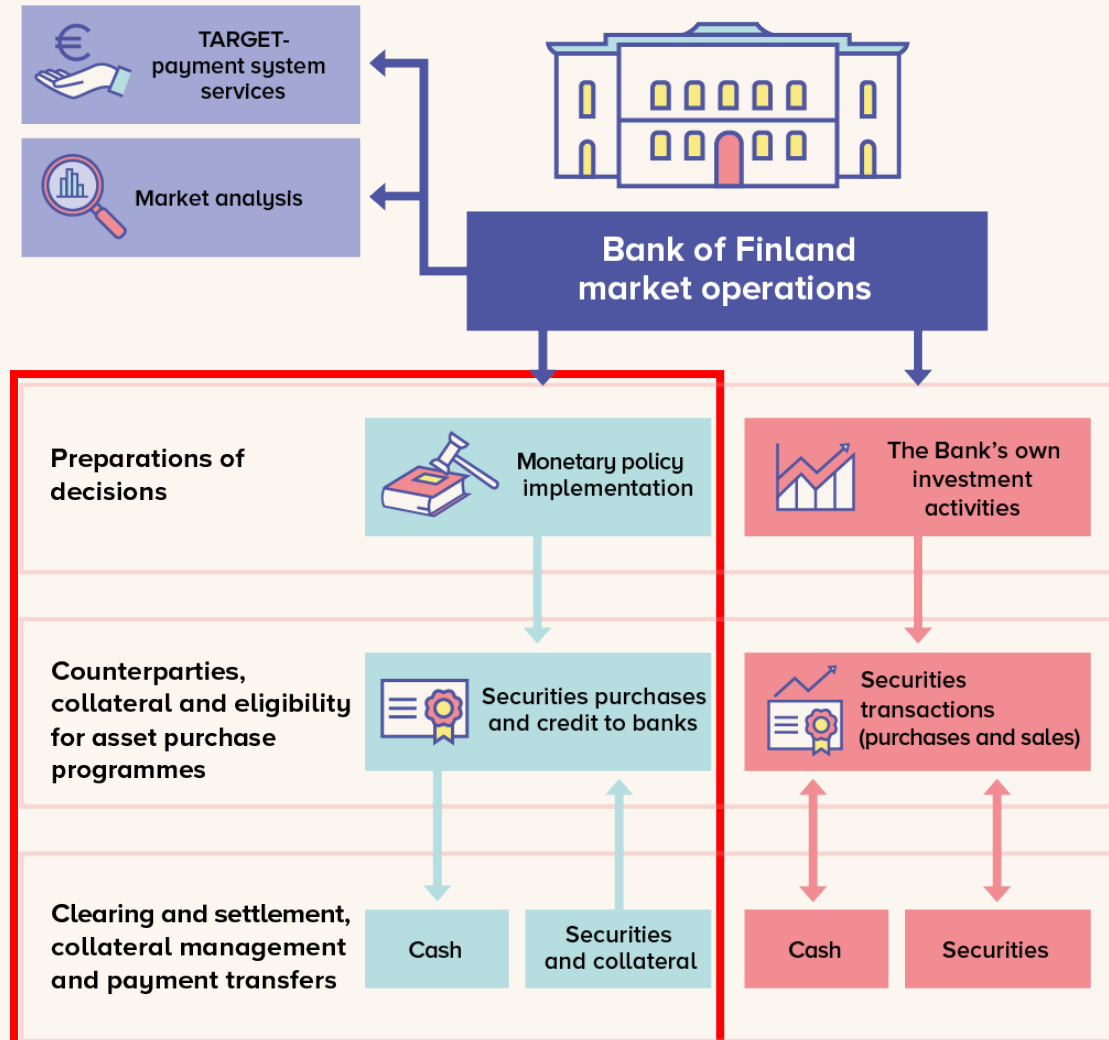
The Bank of Finland's activities in financial markets



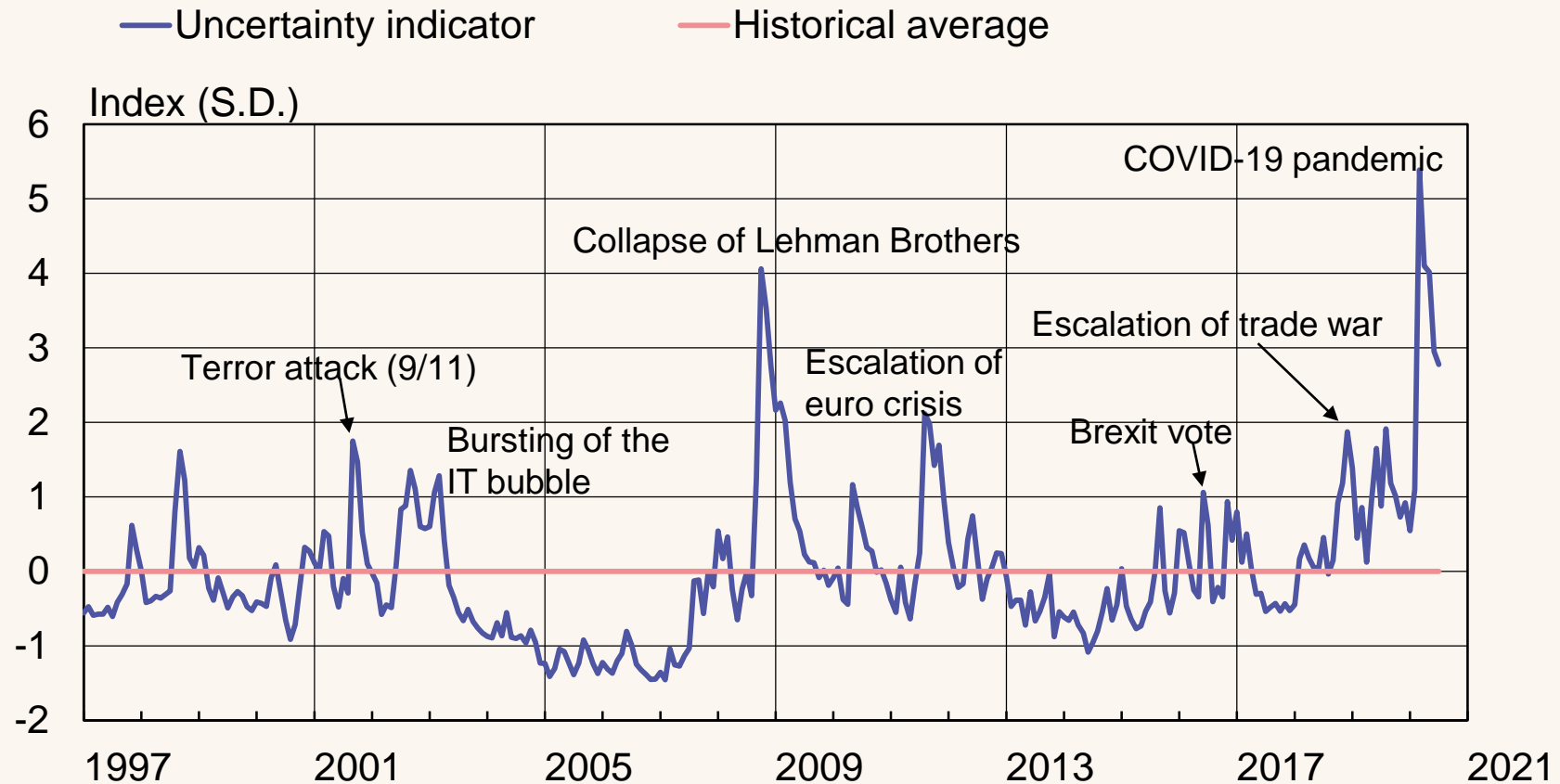
Key messages

- In recent months, monetary policy aiming at price stability has been implemented through extensive market operations designed to support economic growth, employment and financial intermediation in the euro area.
- During the coronavirus pandemic, the Bank of Finland has
 - *made extensive bond purchases within the framework of the monetary policy purchase programme,*
 - *provided banks record-high levels of monetary policy credit at low interest rates,*
 - *relaxed (and continues to relax) collateral policy related to monetary policy credit,*
 - *relaunched investments in the domestic commercial paper market.*

The Bank of Finland's activities in financial markets



Economic uncertainty at a record high in the wake of the coronavirus pandemic



The index reflects the normalised uncertainty indicator formed based on the VIX index and the global EPU index. The value of the index indicates how many standard deviations above or below its historical average the indicator is. Source: Lindblad et al. 2020.

Sources: Bloomberg and calculations by the Bank of Finland.

Monetary policy – objective, stance and implementation

Price stability objective:

Annual rate of euro area inflation below, but close to, 2%.

Monetary policy stance:

Financial conditions (normally interest rates) at a level ensuring that the rate of inflation is consistent with the target over the medium term.

Monetary policy implementation:

Financial market measures designed to steer short-term interest rates and influence other asset prices.

Three principles governing pre-crisis monetary policy implementation

1. Central banks are able to steer short-term market rates.
2. Changes in short-term rates are directly reflected in other financial market rates and prices.
3. The level of interest rates may be adjusted as required by the monetary policy objective.

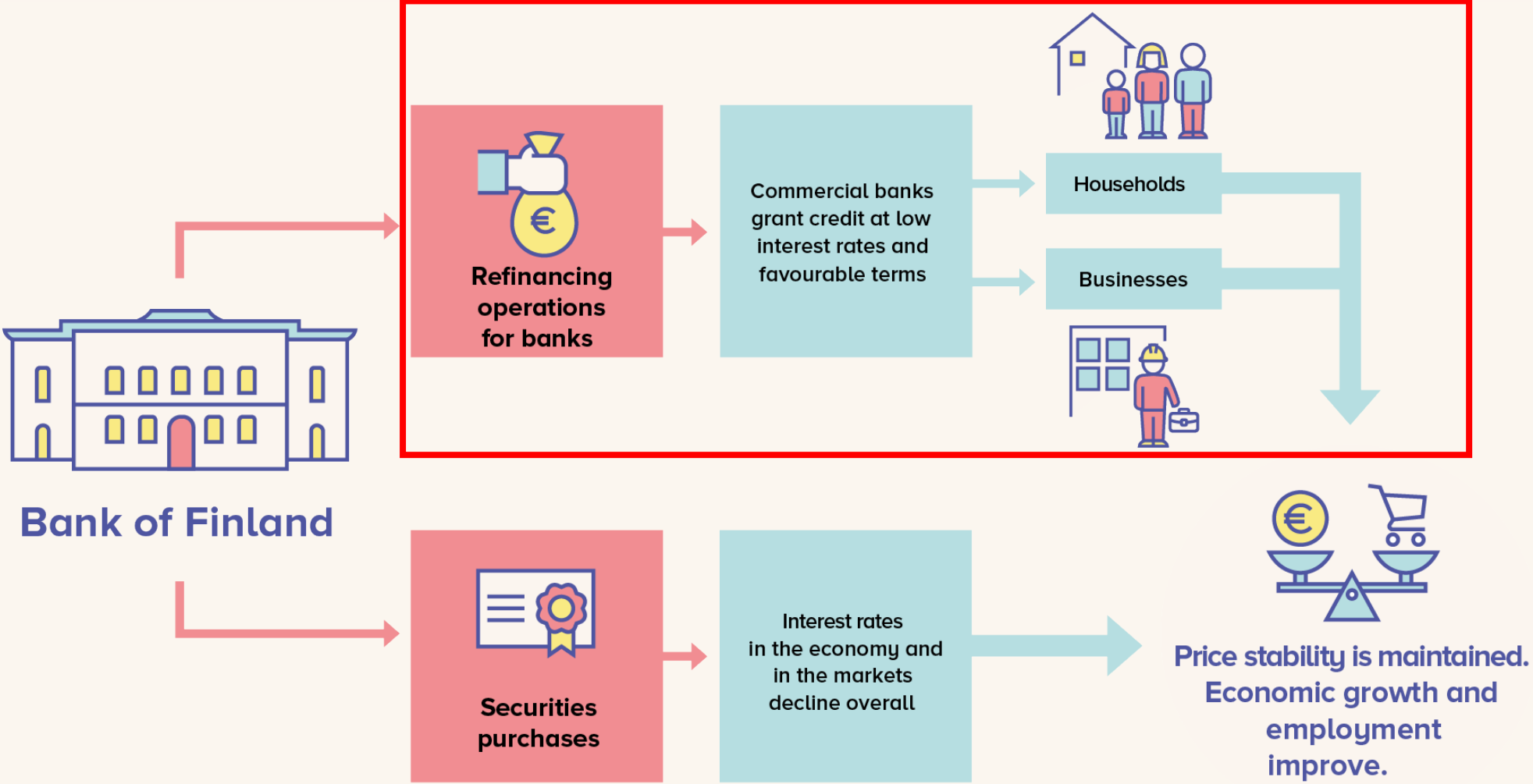
Conditions for monetary policy implementation fell apart

1. With the collapse of the interbank market, the central bank was faced with a situation where neutral liquidity demand was hard to define.
→ *more difficult to steer interest rates*
 2. The level and volatility of risk premia increased notably in response to the sovereign debt crisis.
→ *more difficult to calibrate the monetary policy stance*
 3. The equilibrium real interest rate has been declining for several years already.
→ *extensive monetary policy stimulus would have required an interest rate clearly below zero*
- *apparent need for non-standard monetary policy measures*

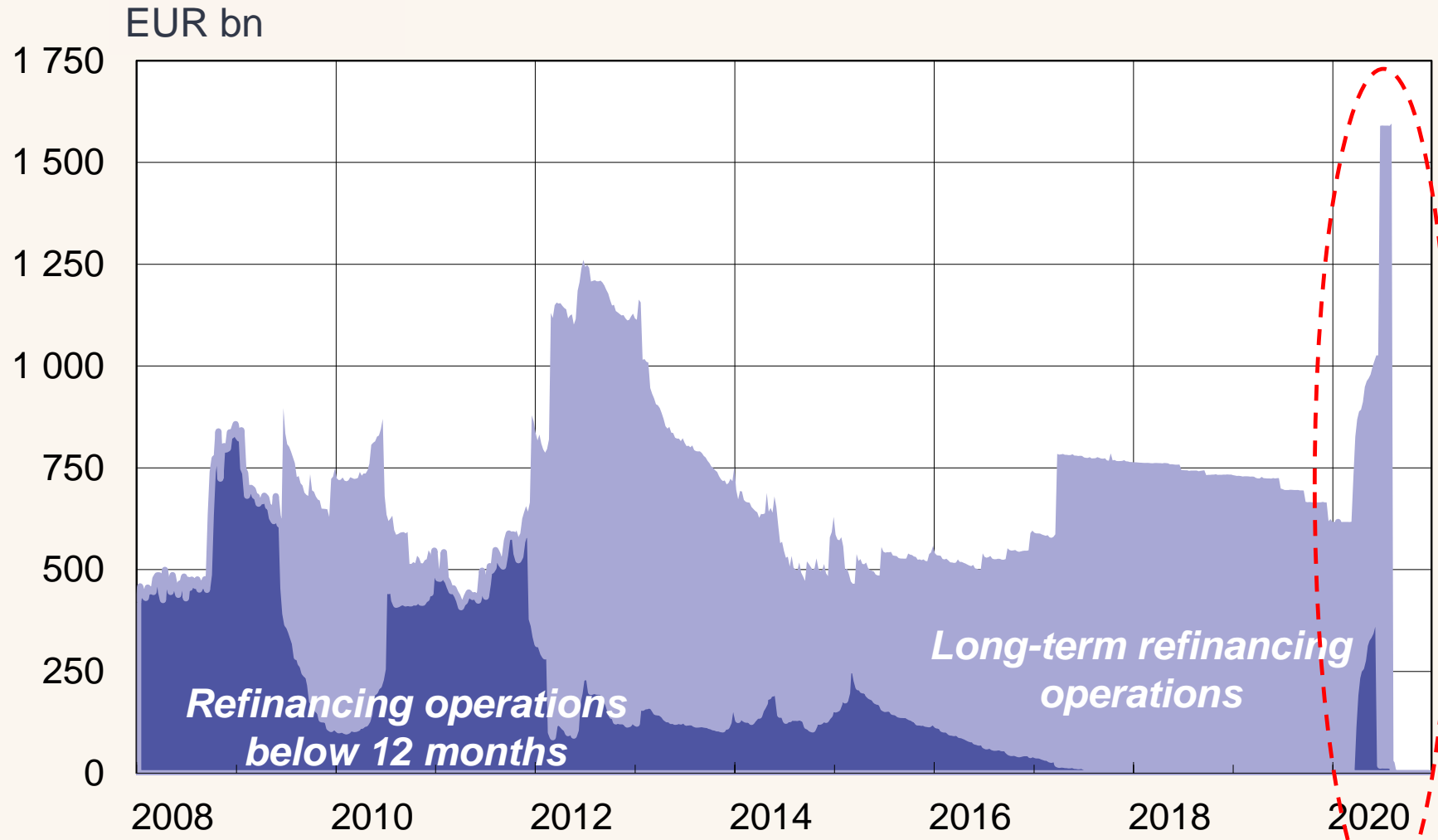
Non-standard measures of monetary policy

1. Negative interest rates
2. Forward guidance
3. Targeted long-term refinancing operations
4. Large-scale securities purchases

Maintaining price stability and economic growth with unconventional monetary policy



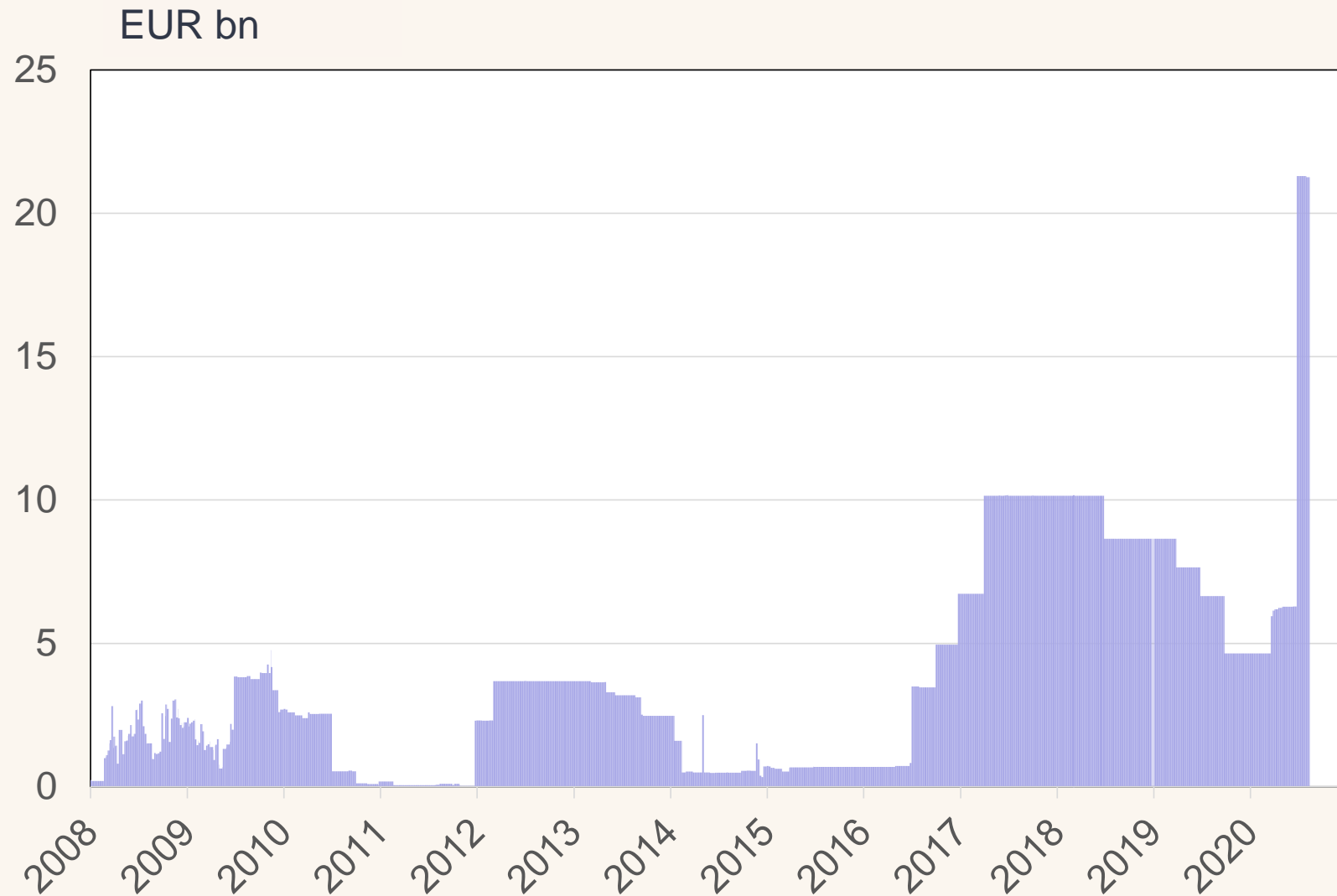
Refinancing operations by the Eurosystem



During the pandemic, euro area banks have been granted affordable TLTRO III refinancing in the amount of EUR 1 423 billion.

Source: ECB

Refinancing operations by the Bank of Finland

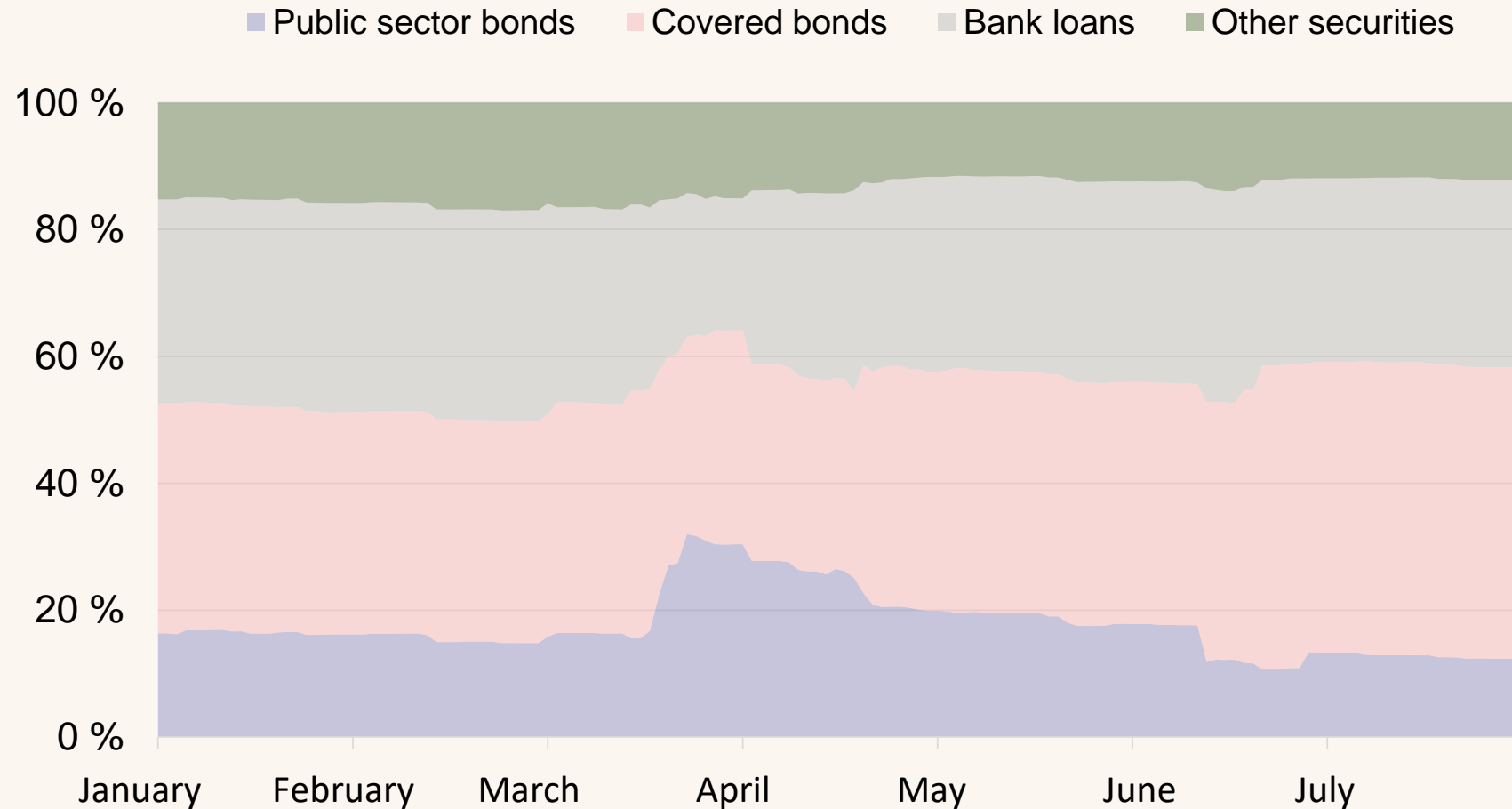


During the pandemic, the Bank of Finland has granted banks TLTRO III refinancing in the amount of EUR 17 billion.

Source: ECB

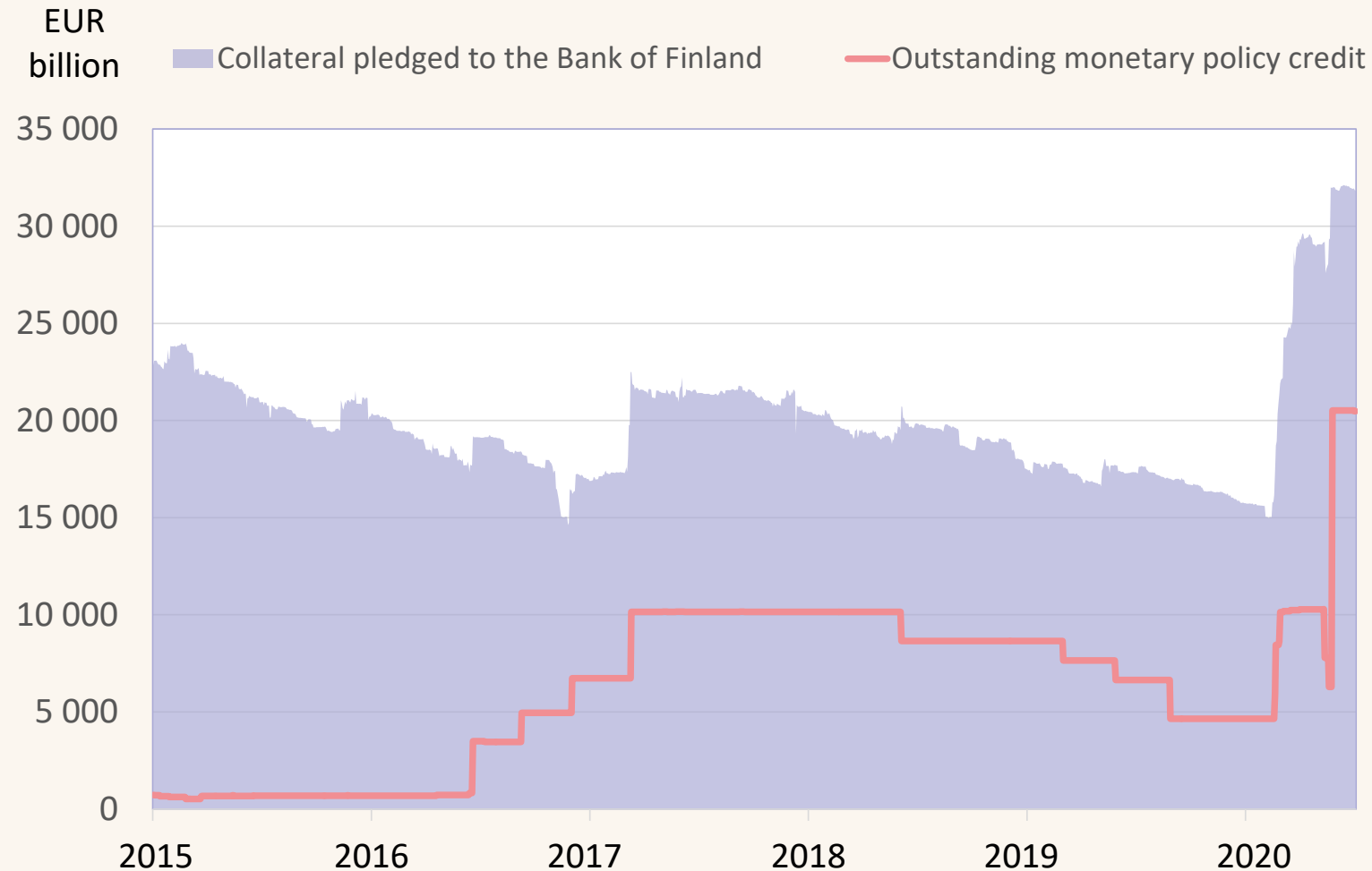
No credit without collateral

Monetary policy collateral submitted to the Bank of Finland in 2020 by collateral type



Source: Bank of Finland.

Monetary policy collateral submitted to the Bank of Finland has doubled in 2020 to over EUR 30 billion

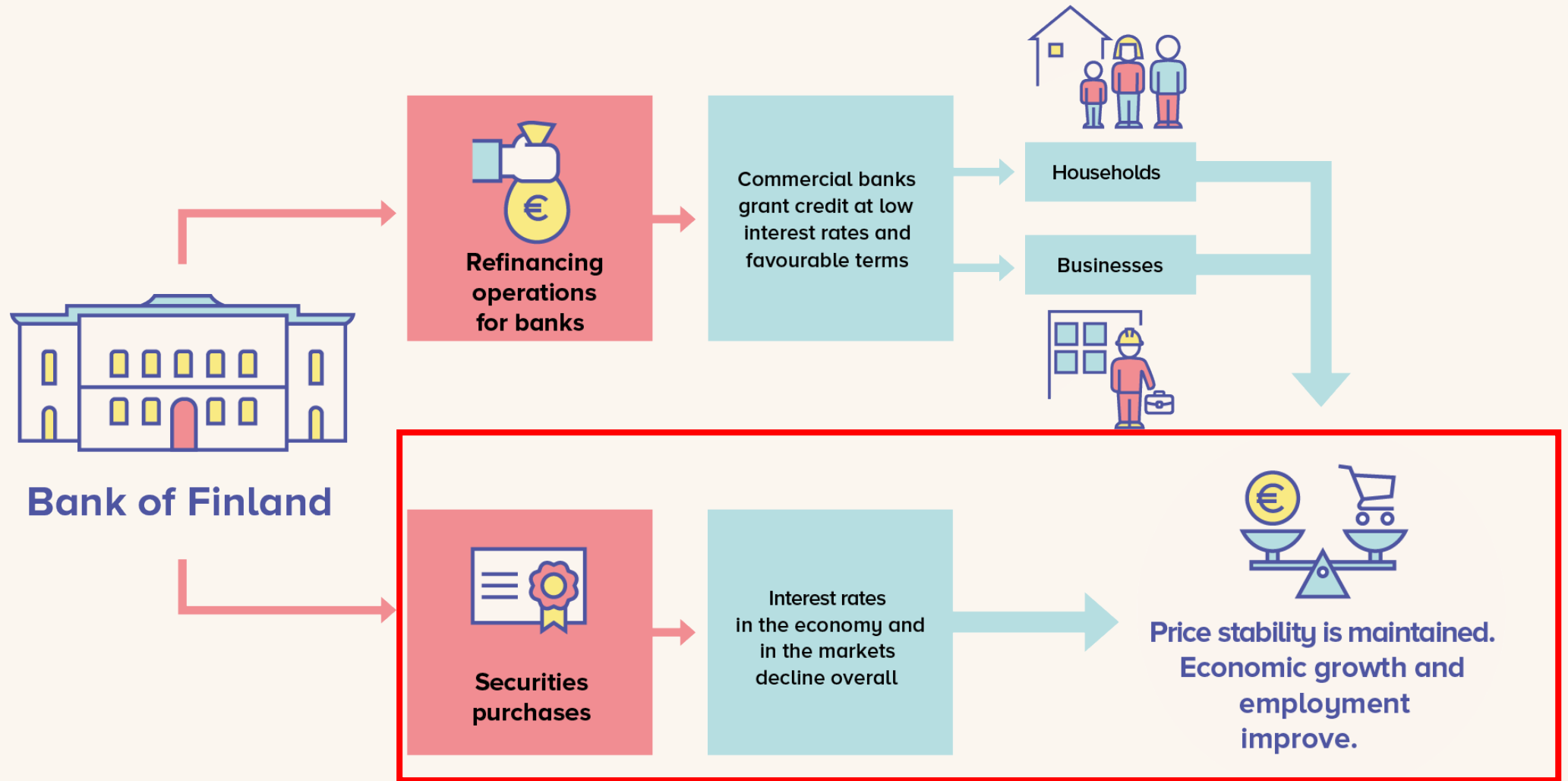


Source: Bank of Finland.

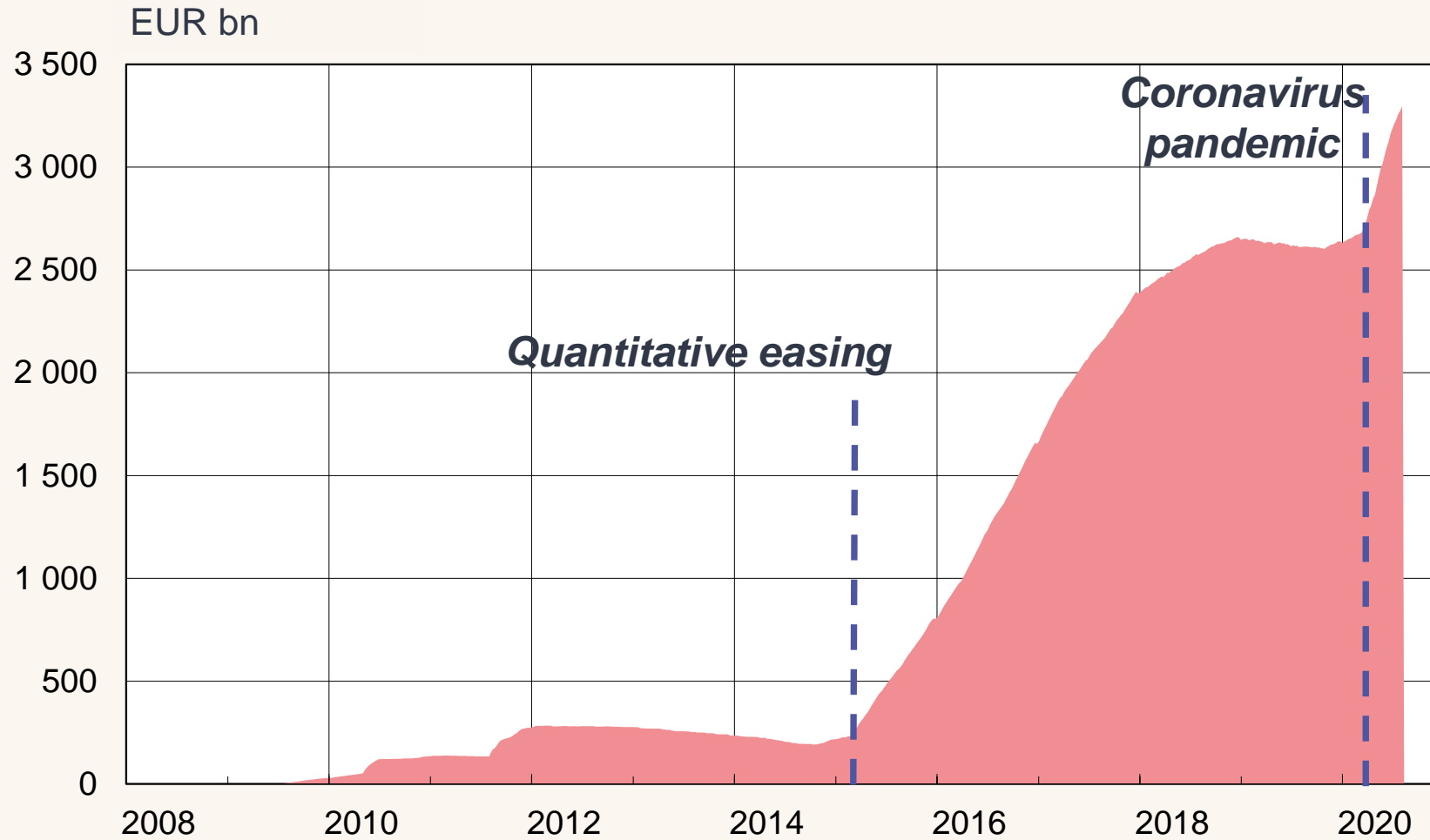
The Bank of Finland's national measures related to the collateral framework

- The Bank of Finland's temporary framework for additional credit claims (ACC) effective as of 1 September 2020
 - Enables the use of bank loans not fulfilling all the general eligibility criteria as collateral
 - The ACC framework has been approved by the ECB Governing Council
 - The minimum credit quality requirement for the loans is a rating of BB+ (normally BBB-)
 - Also loans to Finnish companies with a guarantee granted by Finnvera Plc in response to the Finnish government's COVID-19 measures are acceptable
 - The Bank of Finland bears all the risks associated with collateral submitted under the ACC framework
- The minimum size of credit claims for domestic use was lowered on 1 April 2020

Monetary policy purchases of securities



The Eurosystem's monetary policy purchases

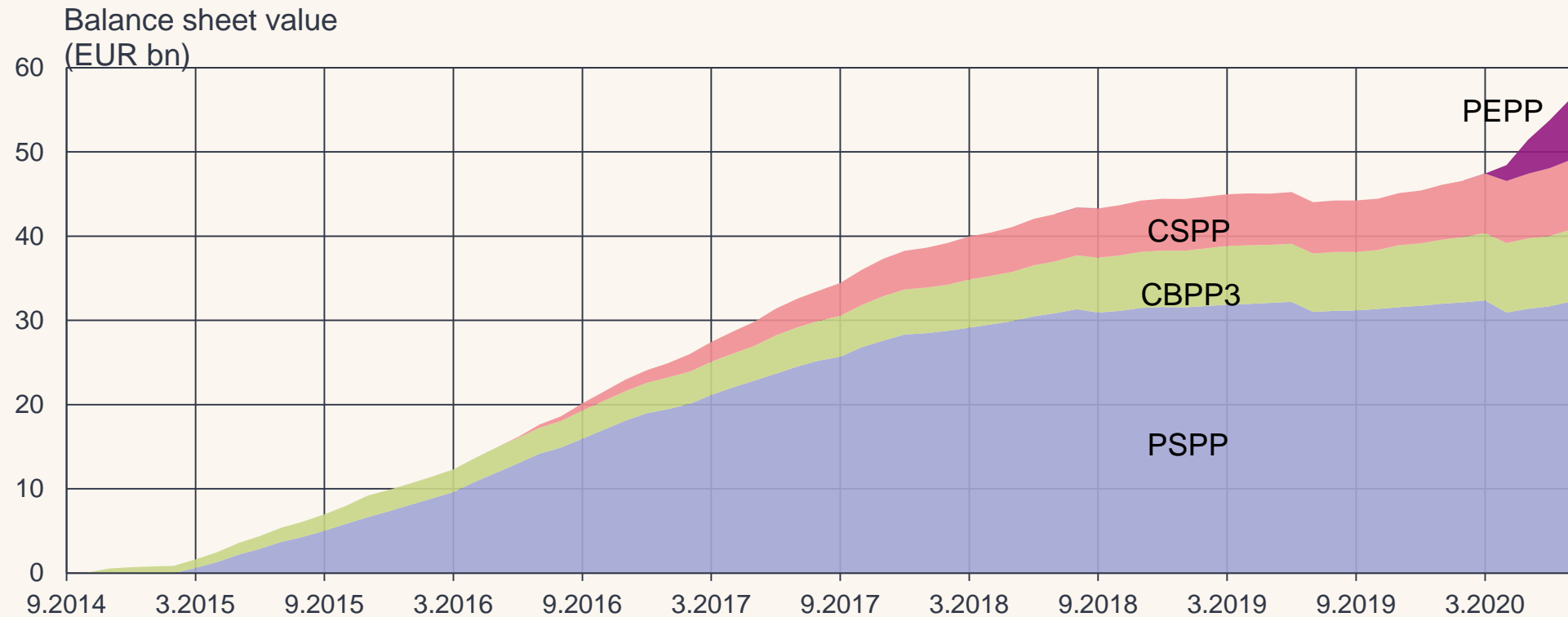


Source: ECB

The Bank of Finland's monetary policy purchases of securities

The Bank of Finland's monetary policy purchases of securities

- Public sector purchase programme (PSPP)
- Corporate sector purchase programme (CSPP)
- Covered bond purchase programmes (CBPP3)
- Pandemic emergency purchase programme (PEPP)

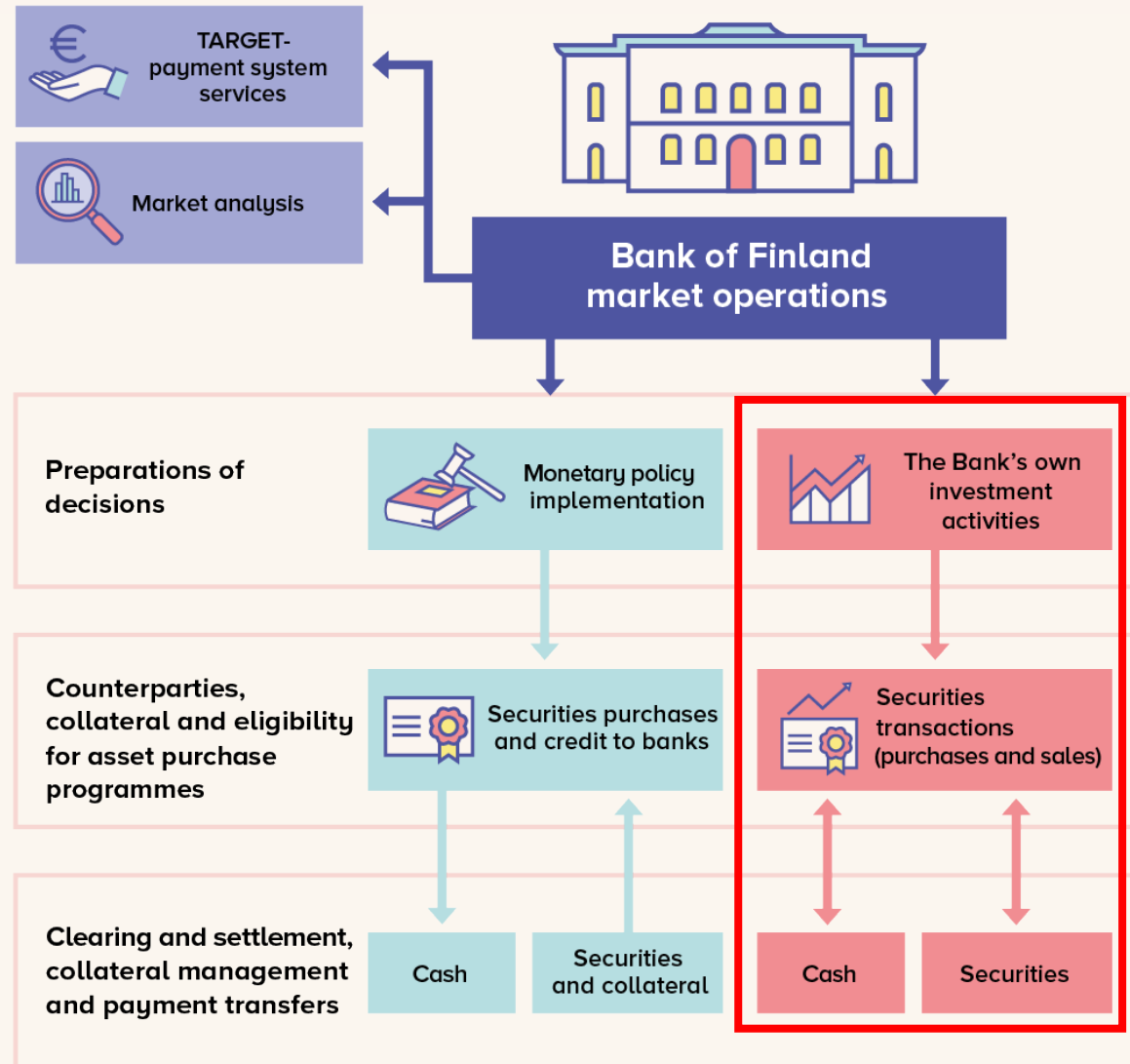


Source: Bank of Finland balance sheet.

25 Aug 2020

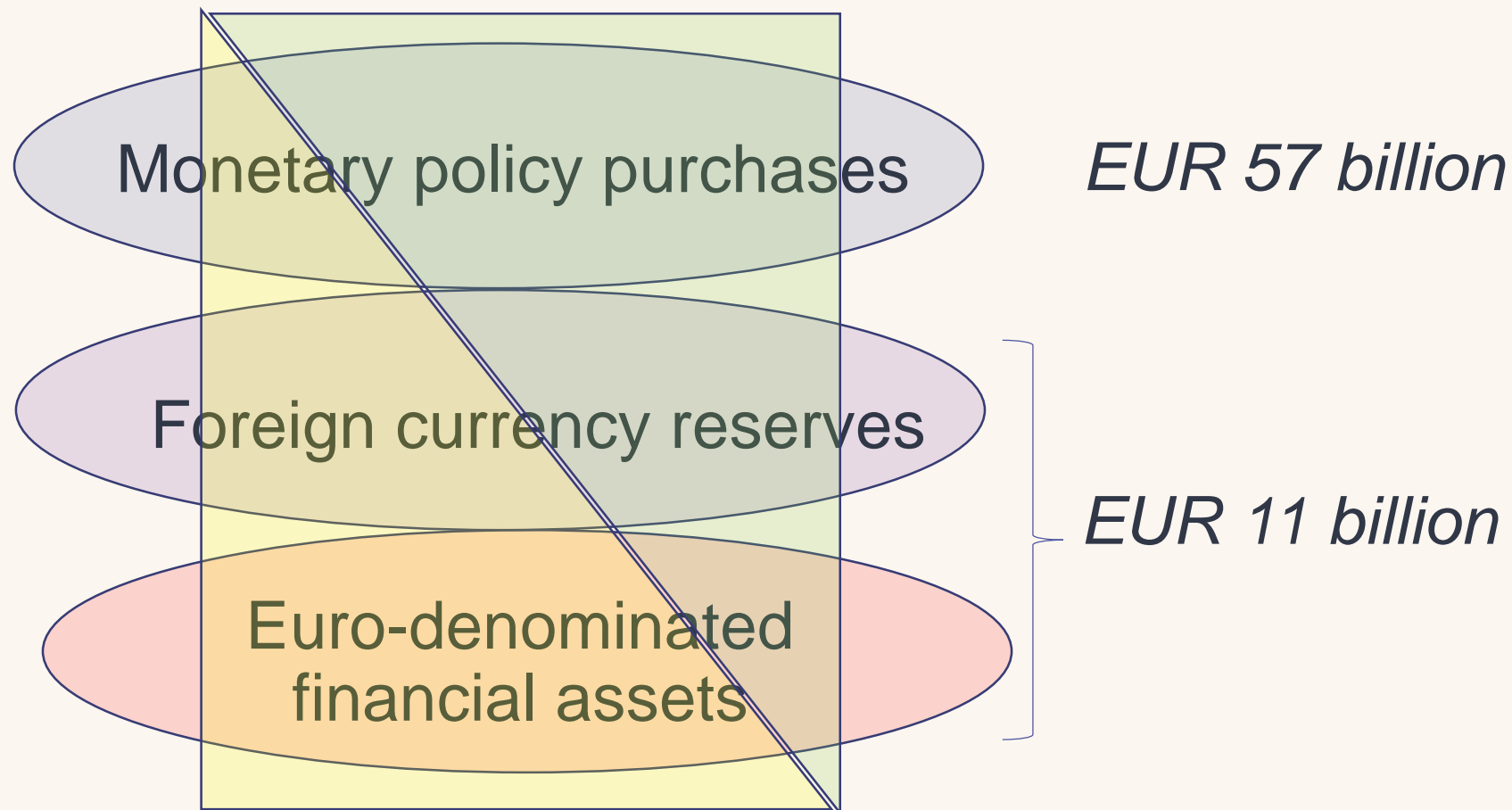
bofbulletin.fi

Bank of Finland investment activities



Bank of Finland market operations

*Monetary policy context;
joint decision-making*



*Security, liquidity and return;
independent decision-making*

Finnish commercial paper market

- A typical characteristic for the Finnish market (e.g. key role of banks)
- Over 100 companies have a commercial paper programme (not all are active)
 - Of these, less than 60 fulfil the Bank of Finland's risk management criteria
- The outstanding amount of the Finnish commercial paper market totalled EUR 4.2 billion in February
- The Bank of Finland does not purchase securities issued by the public sector

Purchases of Finnish commercial paper

- The market for domestic commercial paper weakened rapidly in mid-March, as traditional investors started to retreat from the market.
- In response, the Board decided that the Bank of Finland would re-enter this market, from which it had departed in early 2018. The volume of purchases was initially set at EUR 500 million, but was quickly increased to EUR 1 billion.
- The daily volume of purchases was over EUR 150 million at highest. After a few weeks the situation had calmed down, and Bank's purchases slowed down significantly.
- Although the purchases are part of the Bank's investment activities, they also support financial intermediation – ease the pressure on companies' credit limits.

Bank of Finland Bulletin 4/2020 articles:

- *Implementation of monetary policy purchase programmes at the Bank of Finland* (Ilmanen)
- *Record-high refinancing to Finnish banks* (Tötterman)
- *No credit without collateral* (Hohti and Järvinen)
- *The Bank of Finland manages its financial assets responsibly* (Haavanlammi)
- *The Bank of Finland maintains and develops Europe's common financial market infrastructure* (Peltonen)
- *Market monitoring has to stay on top of market turbulence* (Herrala)

Key messages

- Crises have revolutionised monetary policy implementation in recent years.
- During the coronavirus pandemic the Bank of Finland has
 - purchased over EUR 9 billion worth of bonds as part of the Eurosystem's asset purchase programmes
 - granted TLTRO-III credit at affordable rates, totalling some EUR 17 billion
 - decided to adopt its own framework for Additional Credit Claims (ACC) as of 1 September 2020
 - purchased Finnish commercial paper at nearly EUR 1 billion

Thank you!