



Recovery continues, overshadowed by COVID – monetary policy under conflicting pressures

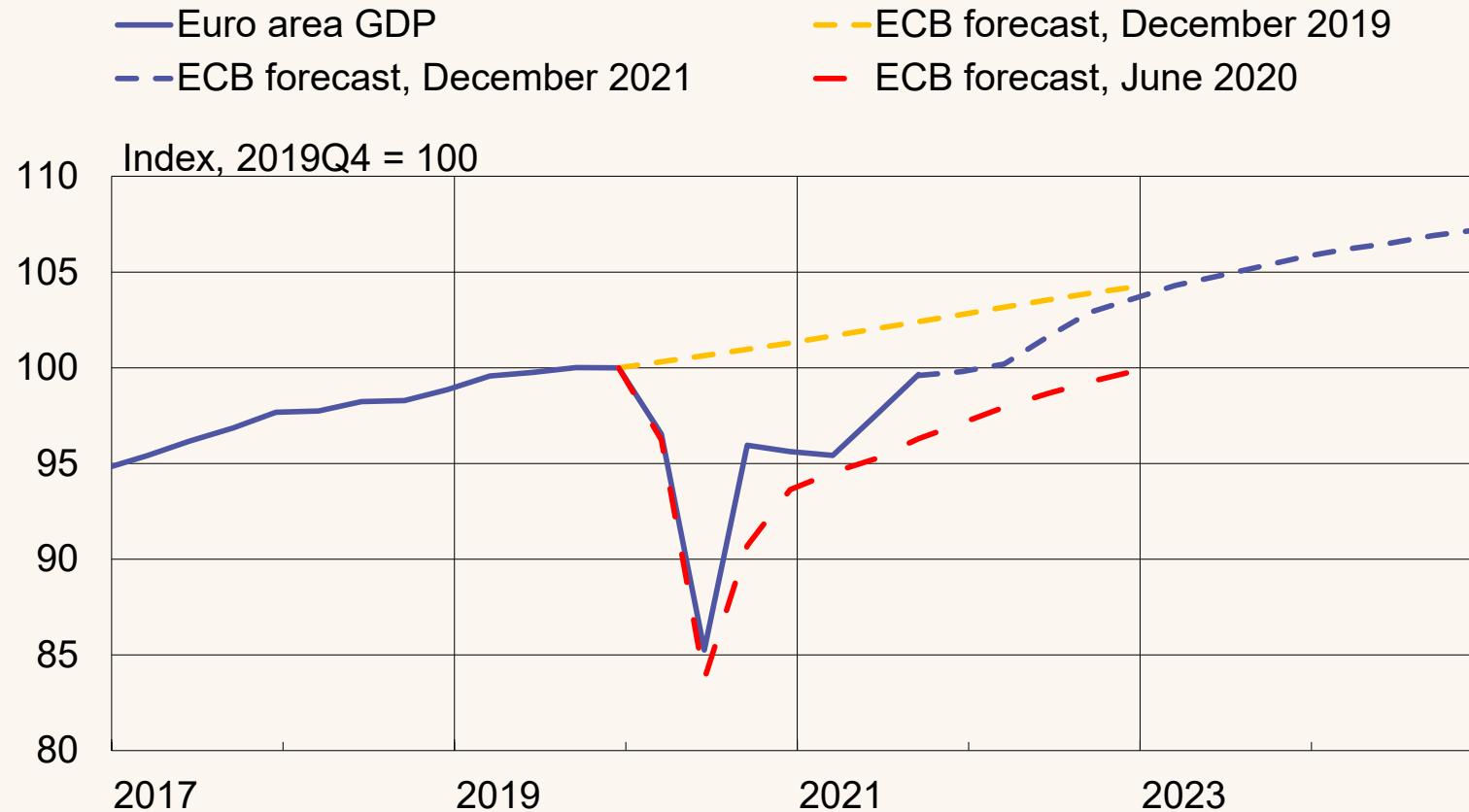
Bank of Finland Bulletin press conference

17 December 2021

Governor Olli Rehn
Suomen Pankki

Robust growth in euro area and strong improvements in employment

Euro area GDP forecasts during the Covid-19 pandemic



Source: ECB staff calculations and Bank of Finland.
35781@MMS(2007-)_LV EN

Mitigation of the pandemic still essential also for the economy; we must all take responsibility

- Health concerns still govern economy – endurance required
- Vaccination coverage must be increased and booster vaccinations speeded up .
- More extensive usage of the COVID certificate would in Finland, too, help contain the pandemic.
- The early phase of the pandemic required a strong economic policy response.
- As the crisis recedes, the situation will change for both monetary policy and fiscal policy.

Energy prices and production bottlenecks have pushed up euro area inflation

Early phase of COVID crisis

- Inflation slowed as demand weakened.

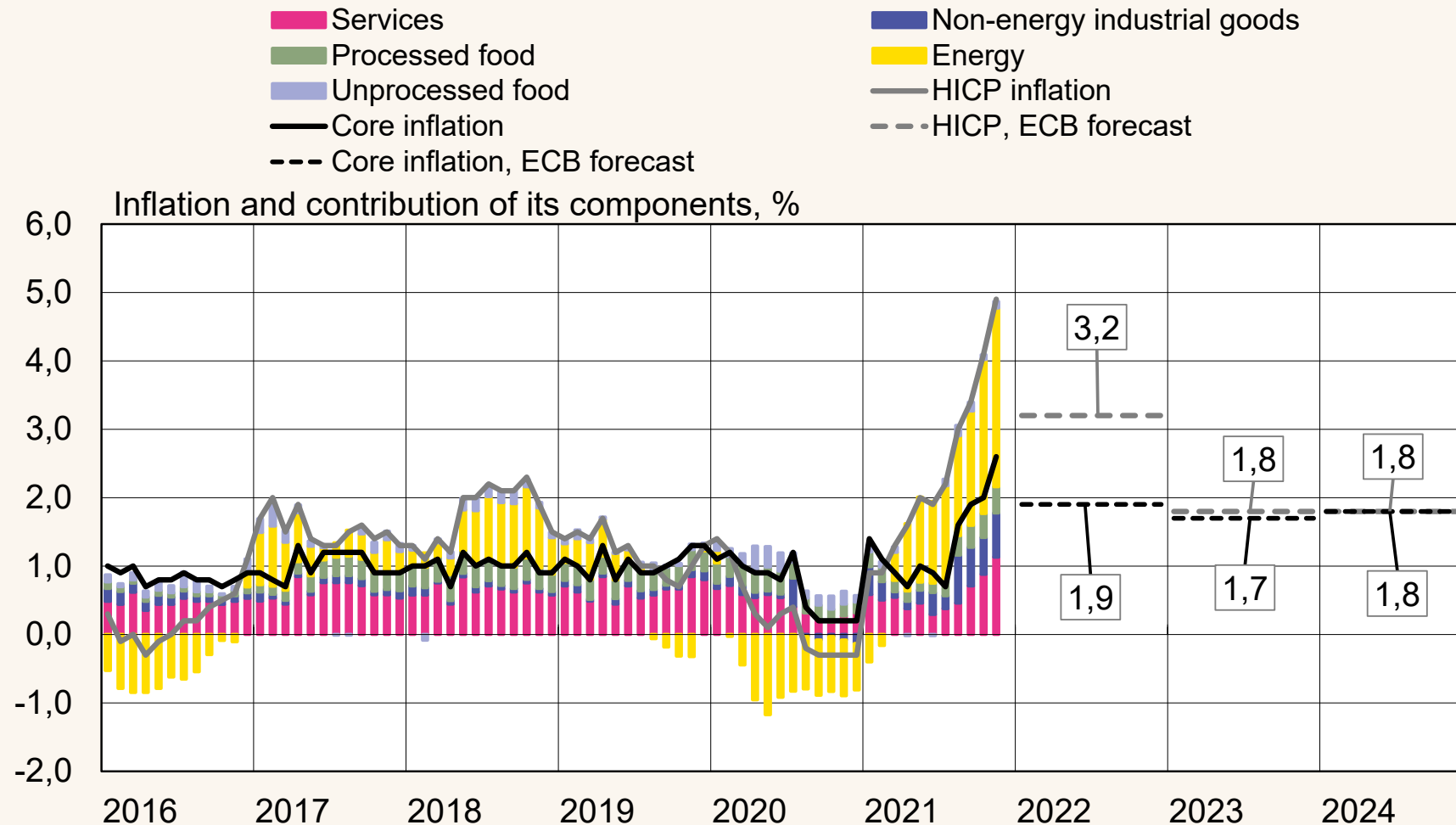
As demand has recovered and supply is constrained by production bottlenecks

- Inflation has picked up in 2021, reflecting in particular the rise in energy prices.
- Inflation projections have been revised upwards in the US, but also in Europe.

Forecast: inflation will slow in 2022

- Many factors driving up inflation are temporary.
- Uncertainty is caused by energy prices in the short term, and by risk of a wage-price spiral in the longer term.

Euro area inflation is projected to slow in 2022



NB: Annual inflation rate of 2015 is distorted due to the change in methodology.

Sources: Eurostat and ECB.

32426@YKHIkontrib(2)en

ECB Governing Council on 16 December 2021: monetary policy stance

- The progress on economic recovery and towards the ECB's medium-term inflation target permits a step-by-step reduction in the pace of asset purchases.
- Net asset purchases under the pandemic emergency purchase programme (PEPP) can be conducted at a lower pace than before, and the purchases can be discontinued at the end of March 2022, as the economy and inflation are rebounding from the dip caused by COVID-19.
- Overall, monetary policy will remain accommodative for inflation to stabilise at the ECB's symmetric 2% inflation target in the medium term.

Key ECB Governing Council decisions, 16 December 2021

1. In the first quarter of 2022, the Governing Council expects to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) at a lower pace than in the previous quarter. Net asset purchases under the PEPP will be discontinued at the end of March 2022, but they could also be resumed, if necessary, to counter negative shocks related to the pandemic.
2. The Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. PEPP reinvestments will be conducted flexibly across jurisdictions to avoid interference with the appropriate monetary policy stance.
3. Under stressed conditions, the Governing Council stands ready to use all its instruments flexibly. Flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability.
4. In the APP, monthly net purchases will be increased to €40 billion in the second quarter of 2022 and to €30 billion in the third quarter. From October 2022 onwards, net asset purchases under the APP will be maintained at a monthly pace of €20 billion for as long as necessary. The Governing Council expects net purchases to end shortly before they start raising the key ECB interest rates.

- In Finland, too, inflation has picked up, but less than in the euro area on average.
- In Finland, too, inflation is projected to slow in 2022.

- Inflation affects many of us in our everyday lives.
- People's experiences are significant for inflation expectations and thus future inflation.

Given Finland's general government finances are in deficit also during favourable economic times, corrective measures are called for

- Finland should return to expenditure frameworks, which lead closer to balance.
- A fiscal governance system: the example of Sweden?
- An expenditure review could help.



In Finland, too, reforms are needed to strengthen conditions for sustainable growth and employment

- The long-term growth outlook for the Finnish economy is notably weaker compared with past decades, and reforms are required.
 - Strengthening of know-how
 - Incentives for employment
 - Innovation policy in a broad sense

Recovery continues, overshadowed by the pandemic – reforms still required

- The acceleration in inflation in the euro area and Finland is due to mainly temporary factors.
- The monetary policy stance continues to support economic recovery.
- The immediate years ahead are a window of opportunity for euro area countries to invest in the green and digital transition and for general economic reform – and this opportunity should not be missed.
- COVID-19 infections must be reigned in, not only for health reasons but also for the economy.



Thank you!

suomenpankki.fi