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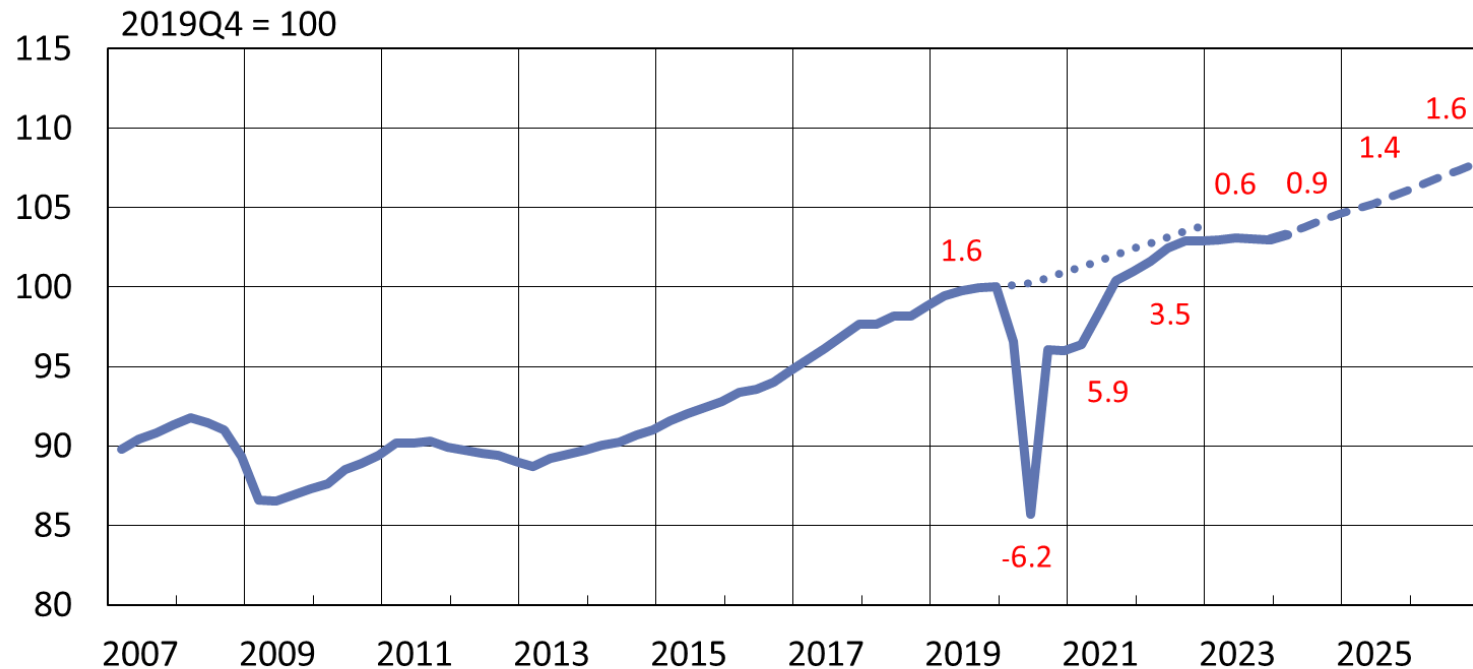
Inflation down and recovery supported by interest rate cut

Bank of Finland Bulletin press briefing
11 June 2024

Governor Olli Rehn
Bank of Finland

Euro area GDP growth is picking up

— Euro area GDP
... ECB's March 2020 forecast
- - - ECB's June 2024 forecast



Figures next to the curve are annual growth rates, %.

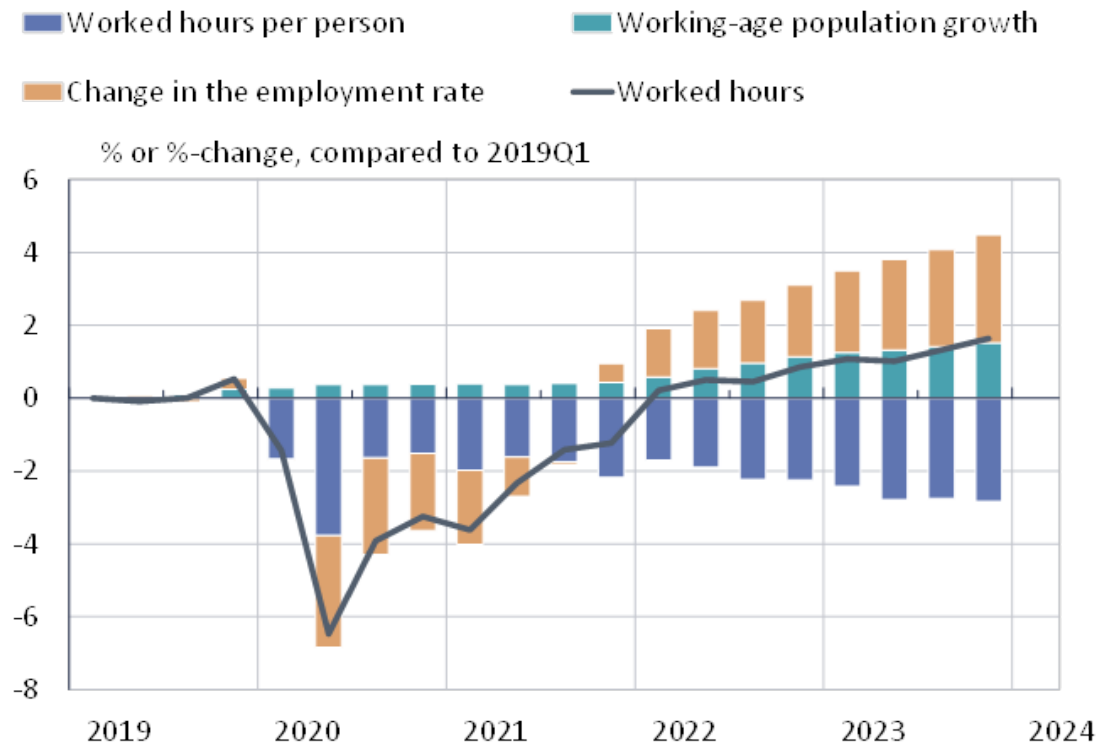
Sources: Eurostat and ECB.

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- In the ECB's June forecast, euro area real GDP growth for 2024 was revised upwards.
- The rise in household real incomes will boost private consumption.
- Demand for the euro area's exports will strengthen, too.

Number of employed in euro area has increased faster than hours worked

Decomposition of the change in worked hours



Source: Eurostat.

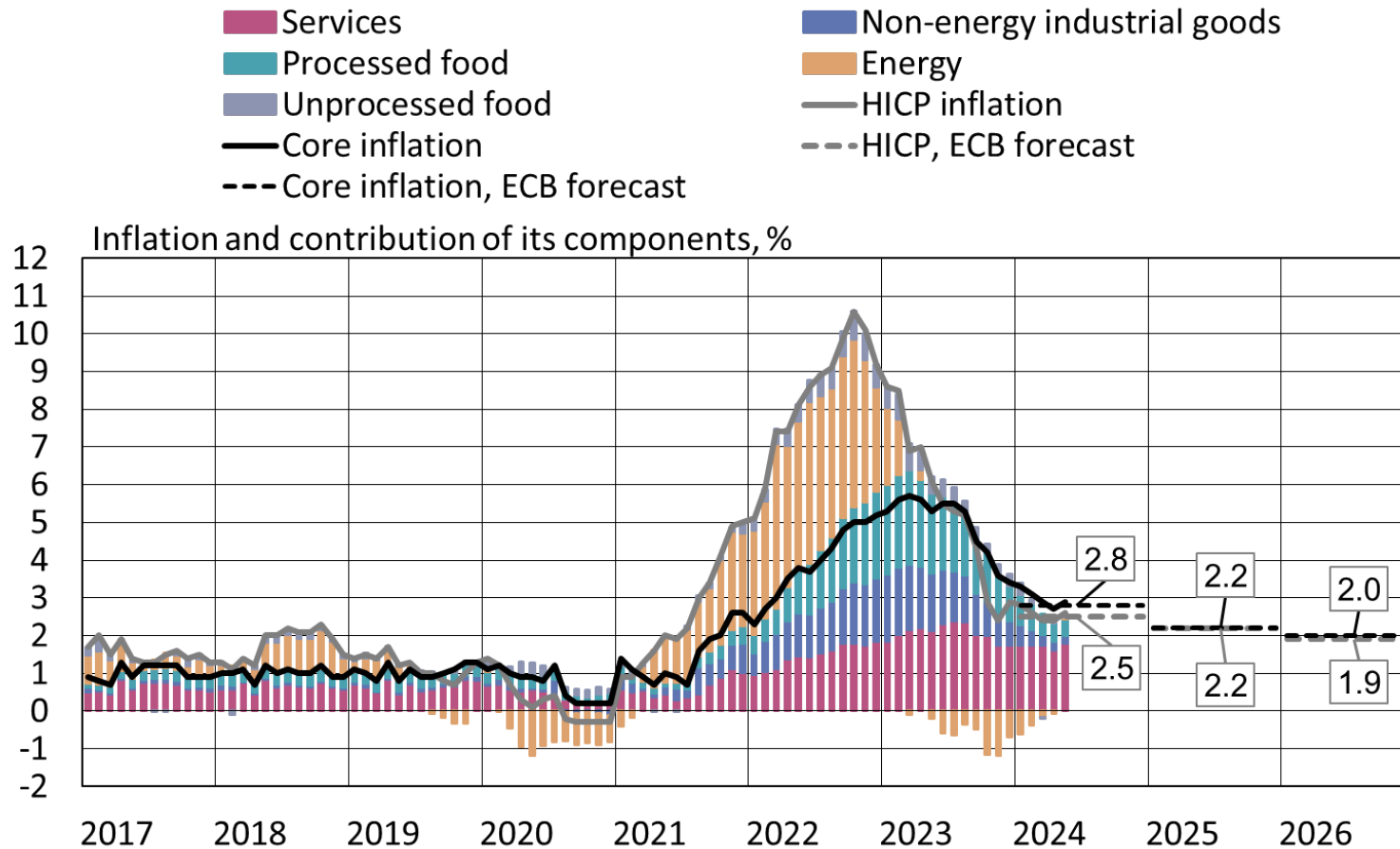
Based on the Labour Force Survey and the age group from 15 to 74 years.

Average hours computed based on the age group from 15 to 64 year.

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- The rise in the employment rate (orange) and increase in the working-age population (teal) have boosted the number of hours worked in the euro area since 2022.
- Population growth in the euro area has increased since 2019 due to migration, in particular.
- On the other hand, the decrease in the average number of hours worked (blue) has pushed down the total number of hours worked.

Euro area inflation continues to slow



Sources: Eurostat and ECB.

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ECB Governing Council decided at its June meeting to lower the key ECB interest rates

1. The ECB Governing Council decided at its June meeting to lower the key ECB interest rates by 0.25 percentage points.
2. The Governing Council is determined to ensure that inflation returns to its 2% medium-term target.
3. The Governing Council will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim.
4. The Governing Council's interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission.

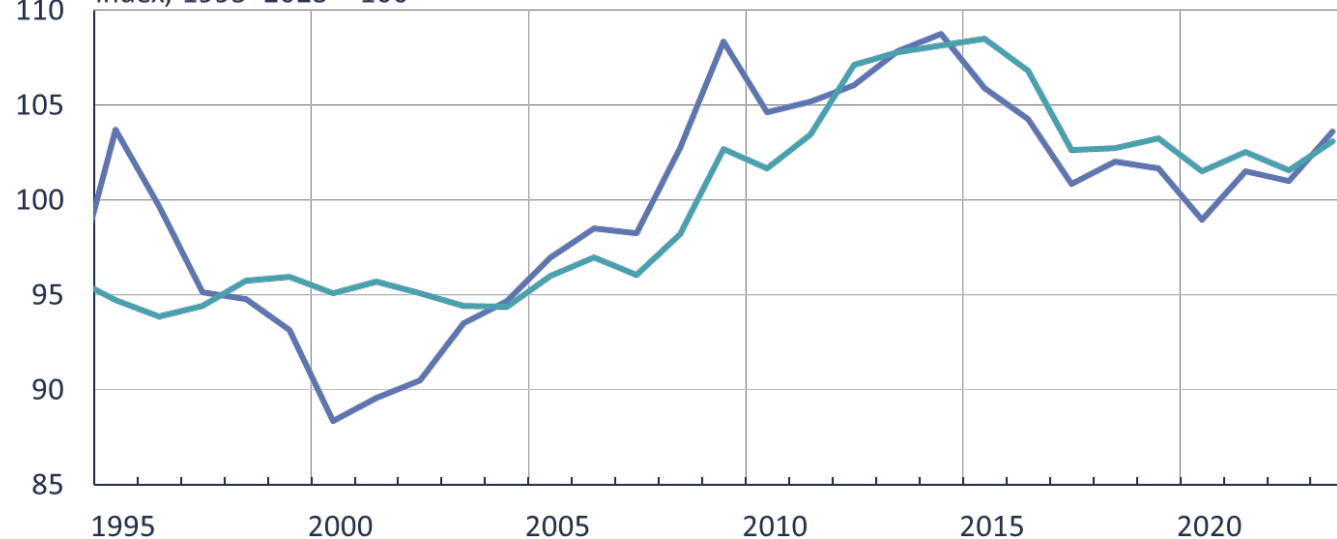
Finland's cost competitiveness has remained more or less unchanged in recent years

Unit labour costs adjusted for the terms of trade

Unit labour costs adjusted for the terms of trade, total economy***

- Relative to advanced-economy trading partners*
- Relative to average for the first 12 euro area countries**

Index, 1995–2023 = 100



* 14 traditional industrial economies weighted by their share of Finnish foreign trade, in the same currency.

** The first 12 members of the euro area.

*** Labour costs divided by national income, total economy.

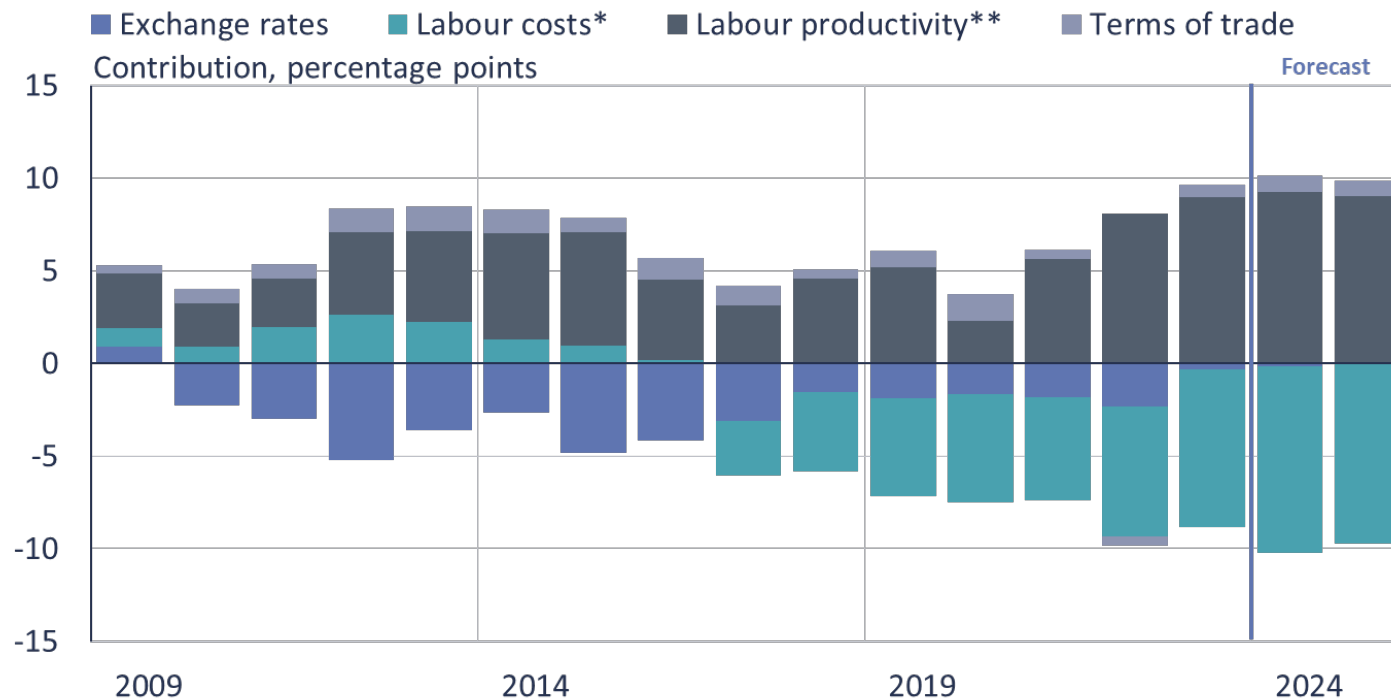
Sources: European Commission, OECD, Macrobond and calculations by the Bank of Finland.

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- Finland's economic success depends on the ability of Finnish companies to adjust to changes in the international operating environment.
- An important factor is the development of cost competitiveness.
- Finland's cost competitiveness weakened after the global financial crisis, strengthened subsequently, and has remained stable in recent years.

Labour productivity performance weak since the global financial crisis

Cumulative contributions to annual change in relative*** unit labour costs adjusted for the terms of trade



- Since the global financial crisis, weak labour productivity performance has eroded Finland's cost competitiveness relative to trading partners.
- At the same time, cost competitiveness has been supported by the moderate growth in labour costs.

* Compensation per employee. ** GDP per person employed.

*** Finland relative to 14 traditional industrial economies.

Sources: Euroopan Comission, OECD, KLEMS, Macrobond and calculations by the Bank of Finland.

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How to spur productivity growth?

- Most innovations used in Finland have been produced elsewhere.
 - By investing in basic research and in related education, we strengthen our capacity to adopt innovations made elsewhere.
- Innovation potential can also be improved by work-based immigration of highly educated individuals and through the internationalisation of Finnish companies.
- In addition to RDI funding, Finland needs an efficient taxation system, well-functioning competition policy, and regulation on the adoption of innovations.

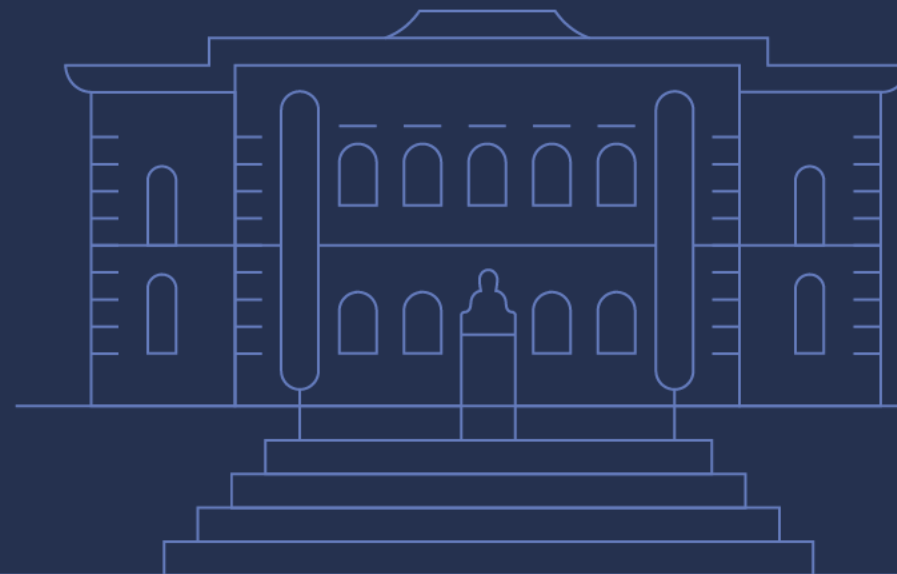
Conclusions

- Euro area GDP growth will strengthen in 2024. Growth in Finland's economy, too, will start to pick up towards the end of the year and will strengthen in 2025 and 2026.
- The real purchasing power of Finnish households has been improving since mid-2023.
- Despite fiscal adjustment measures, the public debt-to-GDP ratio is projected to increase in the immediate years ahead.
 - To support fiscal consolidation, Finland needs a shared long-term objective and a national fiscal framework that supports this.
- At the same time, Finland must strengthen the conditions for sustainable economic growth on a long-term basis.



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Thank you!