



Economic policy must live in two time frames at once

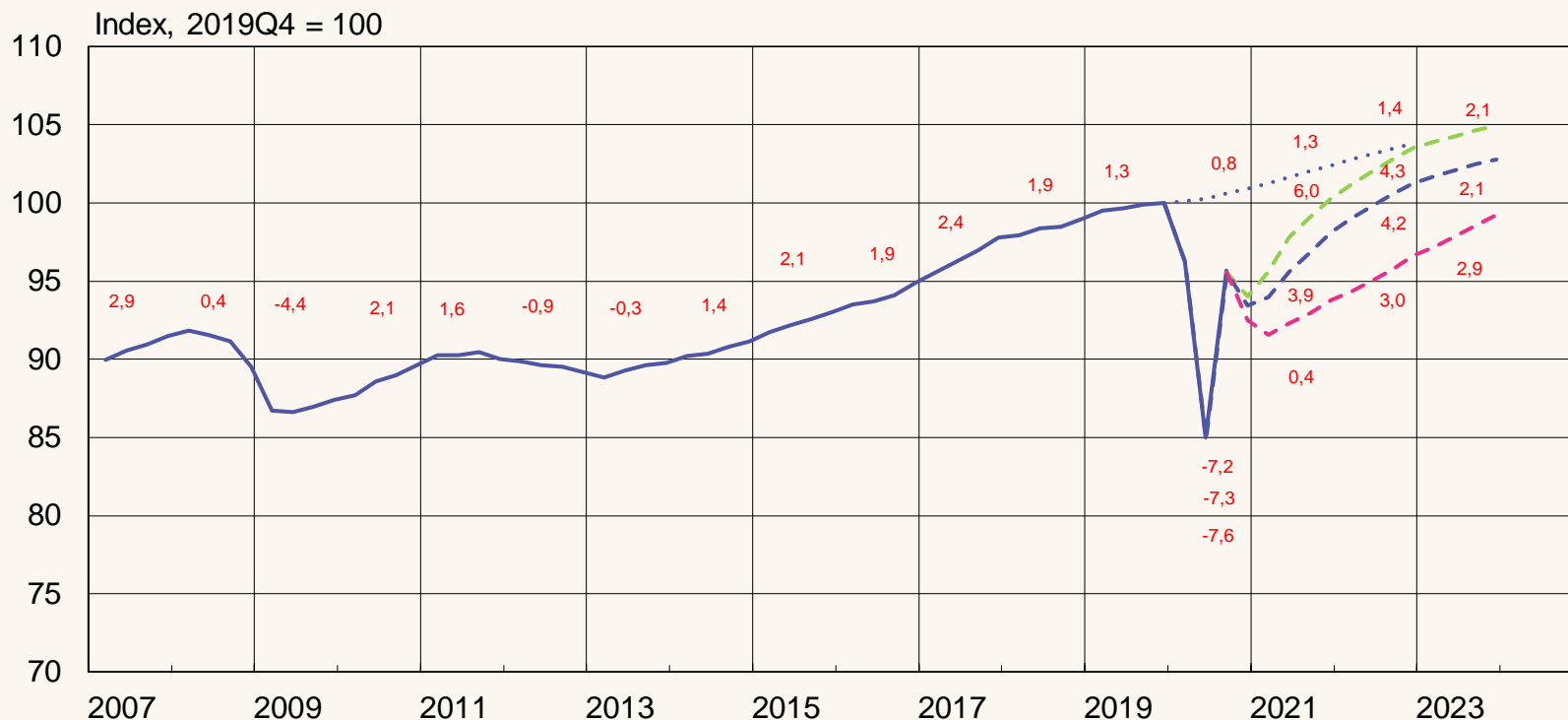
Press conference 15 December 2020

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ECB December forecast and scenarios

COVID-19 crisis under different scenarios

— Euro area GDP ··· ECB March forecast - - - Mild (December)
 - - - ECB December forecast - - - Severe (December)



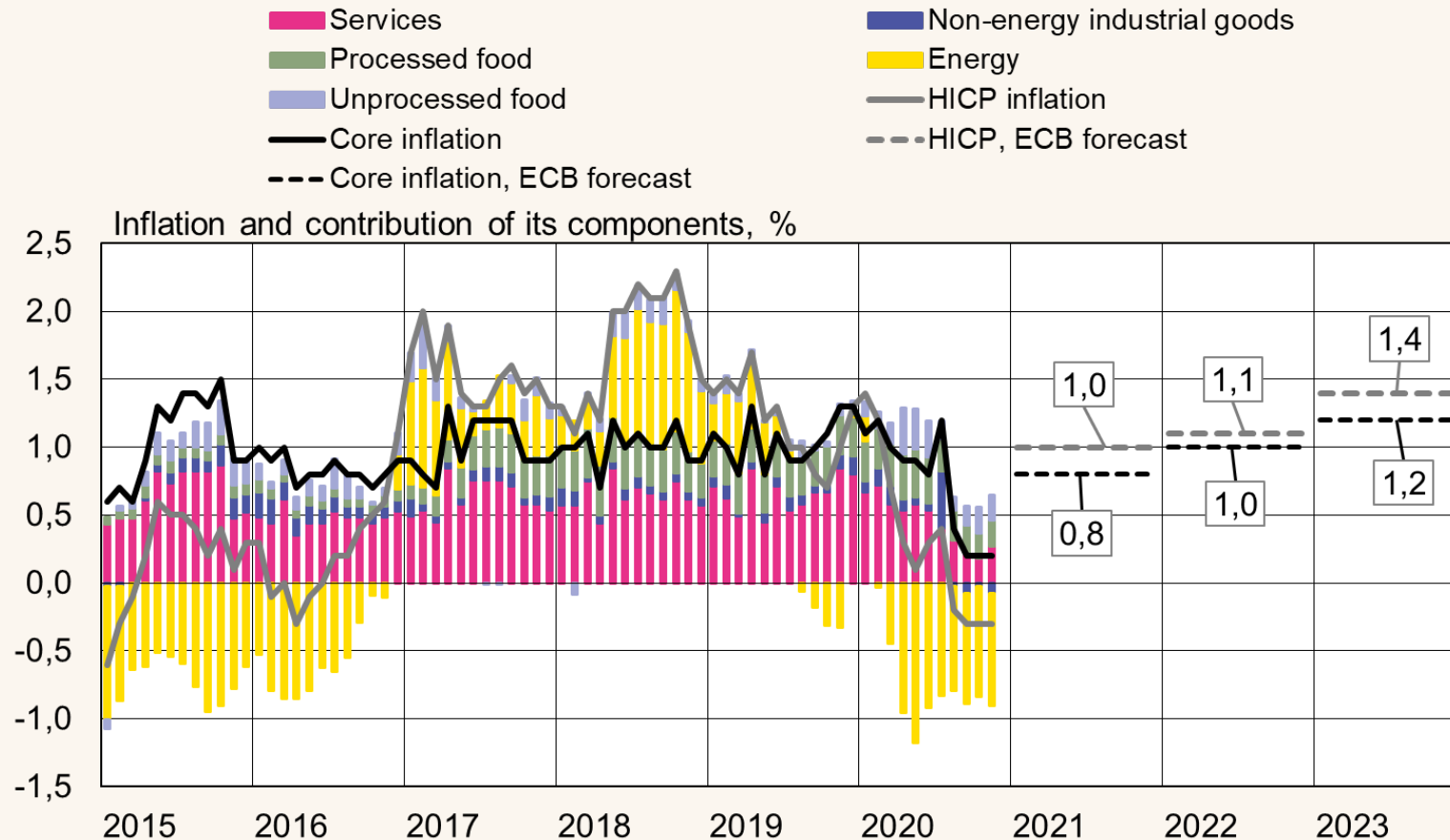
Figures next to the curve are annual growth rates, %
 Sources: ECB calculations and Bank of Finland.

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• Real GDP

- 2020: -7.3 % (0.7)
- 2021: 3.9 % (-1.1)
- 2022: 4.2 % (1.0)
- 2023: 2.1 %

Euro area inflation has decelerated to near zero, and the inflation outlook remains subdued



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

Sources: Eurostat and ECB.

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• Inflation

- 2020: 0.2 % (-0.1)
- 2021: 1.0 % (0.0)
- 2022: 1.1 % (-0.2)
- 2023: 1.4 %

• Underlying inflation (HICP excluding energy and food)

- 2020: 0.7 % (-0.1)
- 2021: 0.8 % (-0.1)
- 2022: 1.0 % (-0.1)
- 2023: 1.2 %

ECB monetary policy motivated by three factors

1. Two distinct periods in the outlook for health and the economy
 - In the short term, a difficult period—current winter and the coming spring
 - In 6–12 months' time, a better outlook, cf. vaccines
 - Paving a path through the thick of it—the other end is in sight
2. Now critical that favourable financing conditions are maintained
 - Supports businesses' and households' access to funding; investment and consumption
3. Meanwhile, Member States and the EU are supporting the economy through fiscal measures
 - Monetary and fiscal policies are currently working in tandem
 - EU Recovery Fund will support rejuvenation of economies in 2021-23

ECB Governing Council decided new measures on 10 Dec; will maintain favourable financing conditions for an extended period

- Among other measures, the ECB Governing Council decided on 10 December to increase the envelope of its pandemic emergency purchase programme and extend the horizon of net purchases until March 2022. Reinvestments will continue at least until the end of 2023.
- Three additional operations will be conducted under the third series of targeted longer-term refinancing operations, and the period over which considerably more favourable terms apply has been extended by twelve months, to June 2022. Applied interest rate as low as -1 %.
- An ample degree of monetary accommodation is still necessary to support economic activity and the robust convergence of inflation towards the price stability objective.

Euro area monetary policy conducive to employment and growth

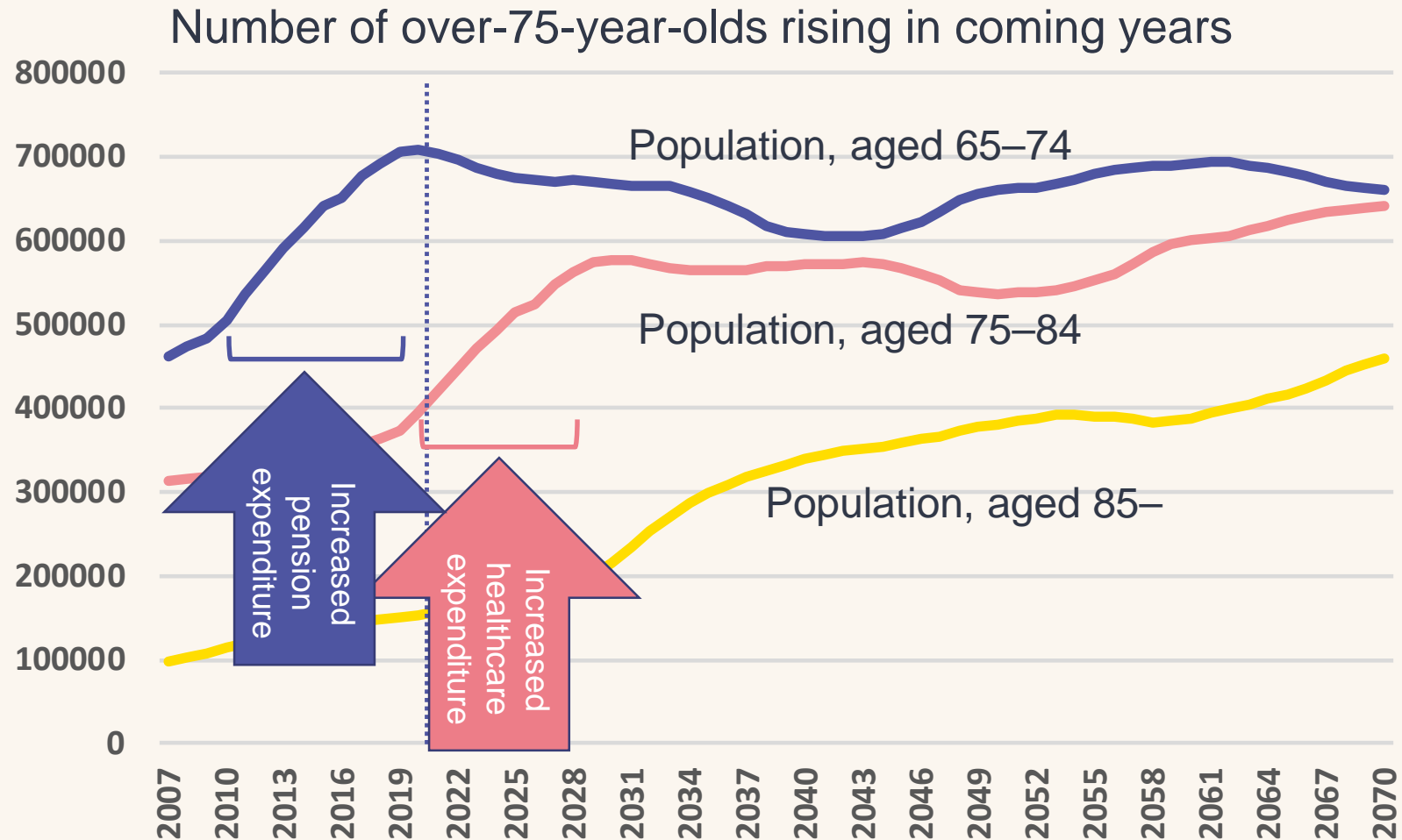
- The new monetary policy measures will contribute to preserving favourable financing conditions over the pandemic period, thereby supporting the flow of credit to all sectors of the economy, underpinning economic activity and safeguarding medium-term price stability
- Uncertainty remains high regarding the dynamics of the pandemic and the timing of vaccine roll-outs. The Governing Council is monitoring developments in the exchange rate, as this too can influence the medium-term inflation outlook.
- The Governing Council continues to stand ready to adjust all its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner.

But the economy's long-term challenges have not disappeared; on the contrary

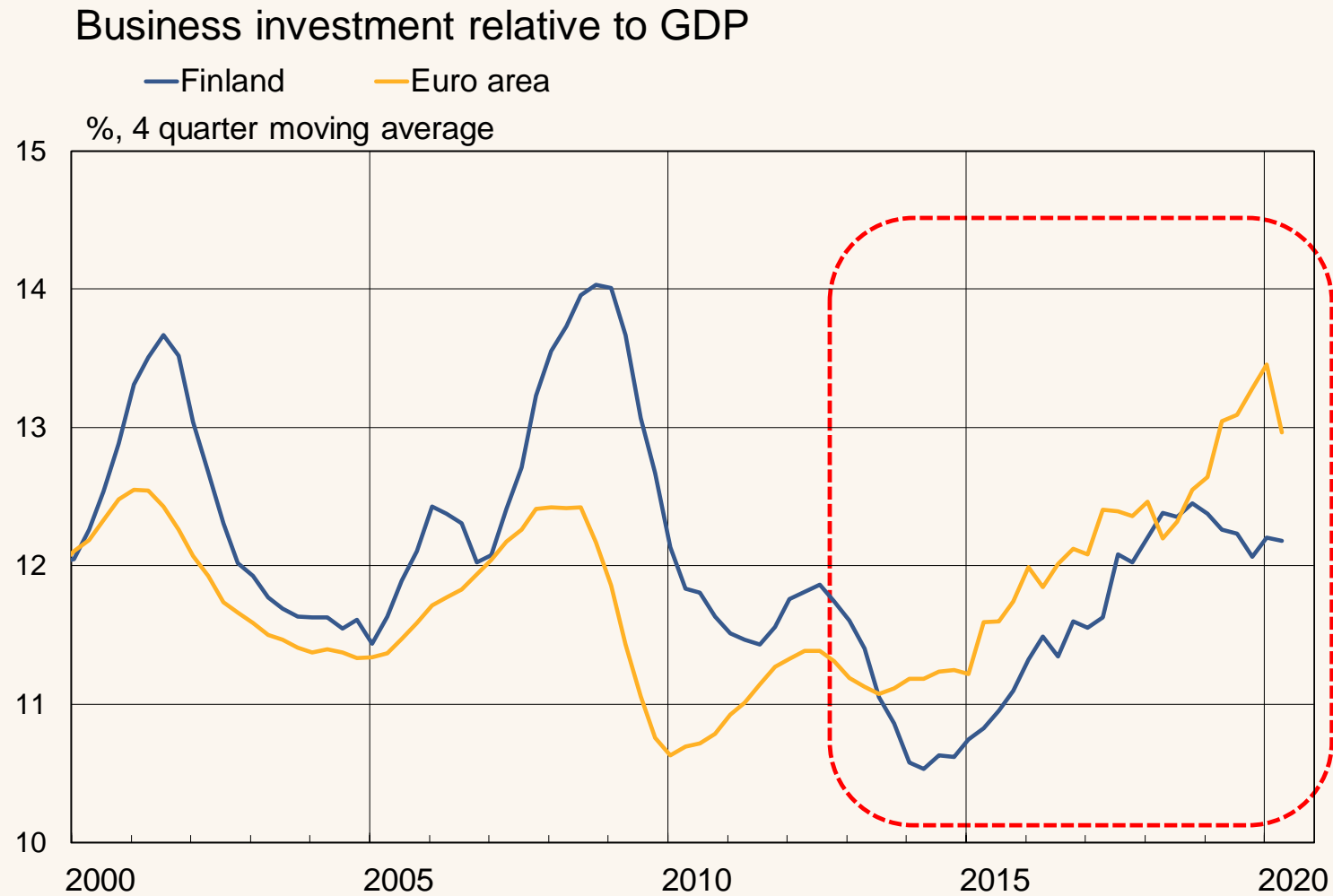
- Vaccine developments have increased the prospect of bringing the pandemic to heel over the course of 2021
- However, the public health situation and economic outlook are both set to remain weak for the coming months—a difficult winter and spring ahead.
- In addition, once the acute crisis is over, the economy's long-term challenges will return with a vengeance

Sustainability gap in the public finances now bigger: 5½ %

Demographic transition is now affecting elderly-care expenditure



Weaker growth in productivity and corporate investment



Source: Eurostat.

Economic policy must live in two time frames at once: cancelling corona and rejuvenating the economy

- Going the distance with social distancing: reining in the pandemic is critical for public health, but also for the economy
- The need for demand-boosting fiscal stimulus will carry over into next year
- Yet it is important that the room for manoeuvre afforded by monetary accommodation is used to enact economic reforms, in Finland too
- Raising labour productivity growth, digital and green transformations
- In future, a growing need to bolster employment and the sustainability of the public finances with structural reforms
- What is needed here is the capacity for reinvention—which ought to be in plentiful supply in Finland



Thank you!

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