



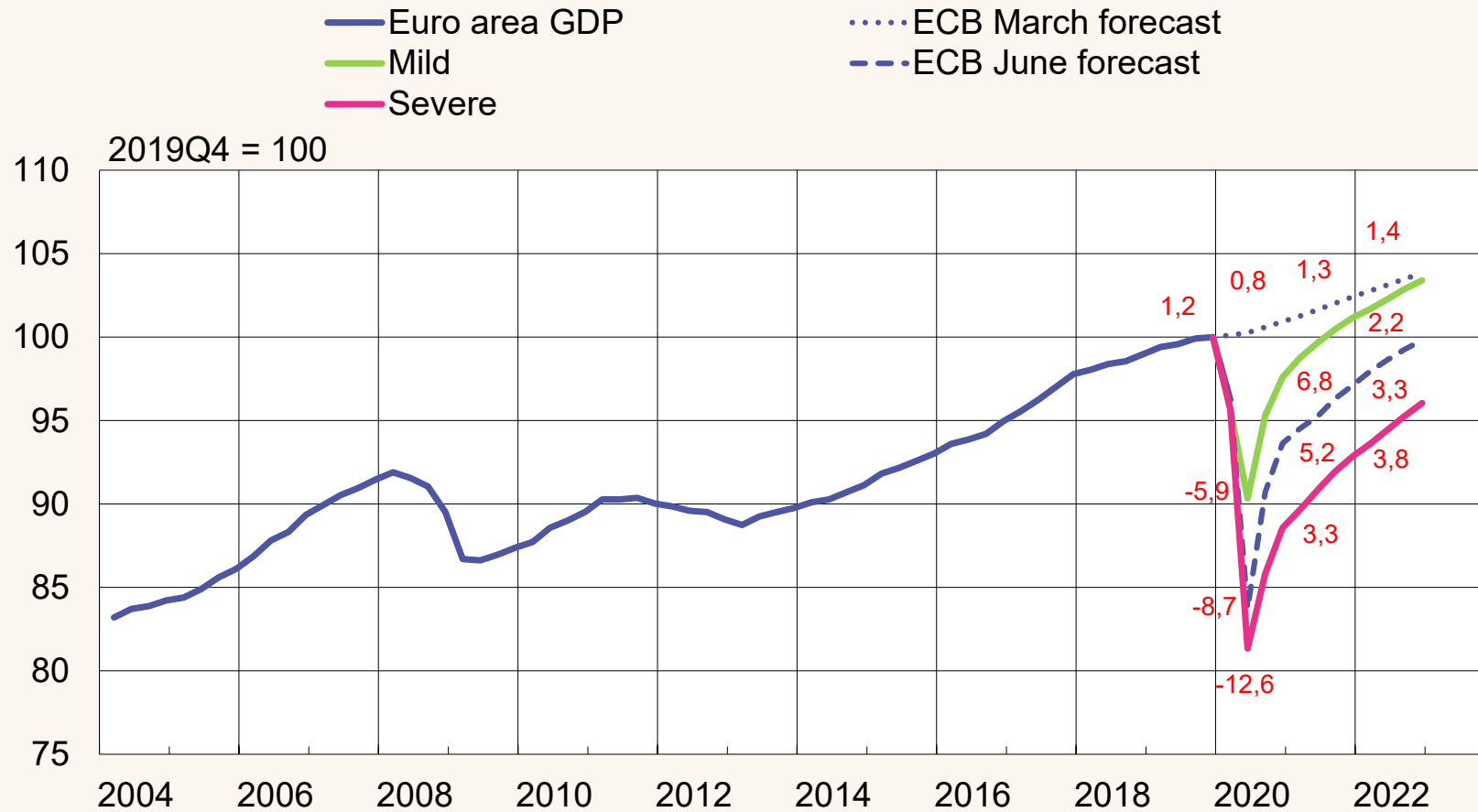
The Finnish economy in early summer 2020: The worst has not transpired – but we mustn't fade in the second half

Bank of Finland Bulletin press conference 9 June 2020

Summary

- The euro area economy will slump into a deep recession in 2020.
- The ECB's accommodative monetary policy will ensure favourable financing conditions for a long period of time.
- Common European measures: a comprehensive assessment, not a partial one!
- There is a risk of a renewed weakening of Finnish cost-competitiveness.
- Conditions for employment growth must be in place during the recovery phase.
- The foundations for growth and sustainable public finances must be strengthened.

Euro area GDP to contract sharply and recover gradually



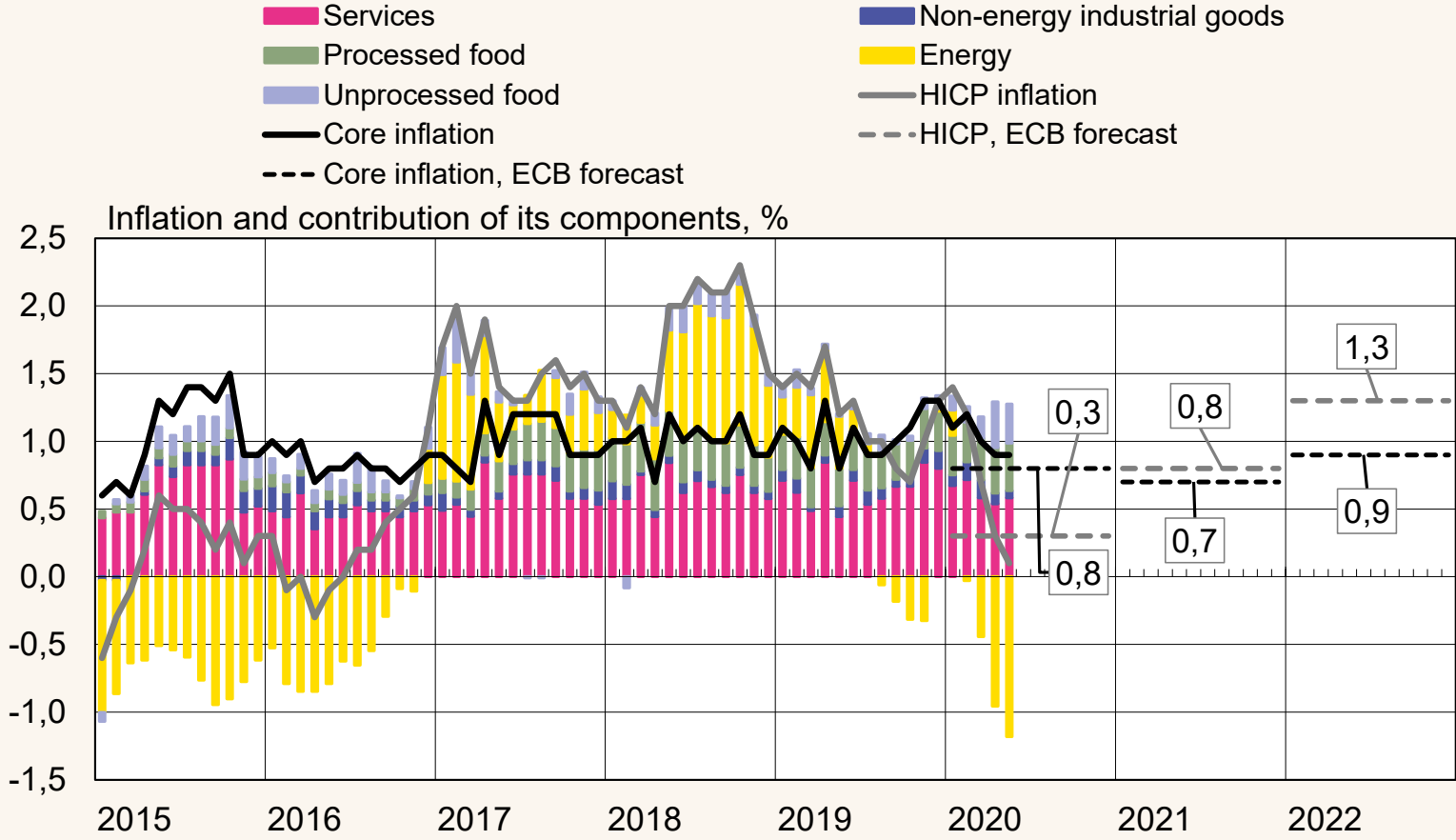
Figures below the curve are annual growth rates, %
Sources: ECB calculations and Bank of Finland.

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Responses by central banks and supervisory authorities to the coronavirus crisis

- **Monetary policy** has been eased further – supports financial stability and liquidity
- **Bank capital requirements** have been lowered – maintains lending capacity
- **Global cooperation between central banks to safeguard dollar liquidity** by means of favourable liquidity swap arrangements (USD swap lines) – Fed, ECB and four other central banks, etc.
- The Bank of Finland has purchased **Finnish commercial paper** as part of its investment activities.

Euro area inflation slow and outlook subdued



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

Sources: Eurostat and ECB.

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Weak demand has weighed on the inflation expectations



*Weighted 12-month rolling horizon.

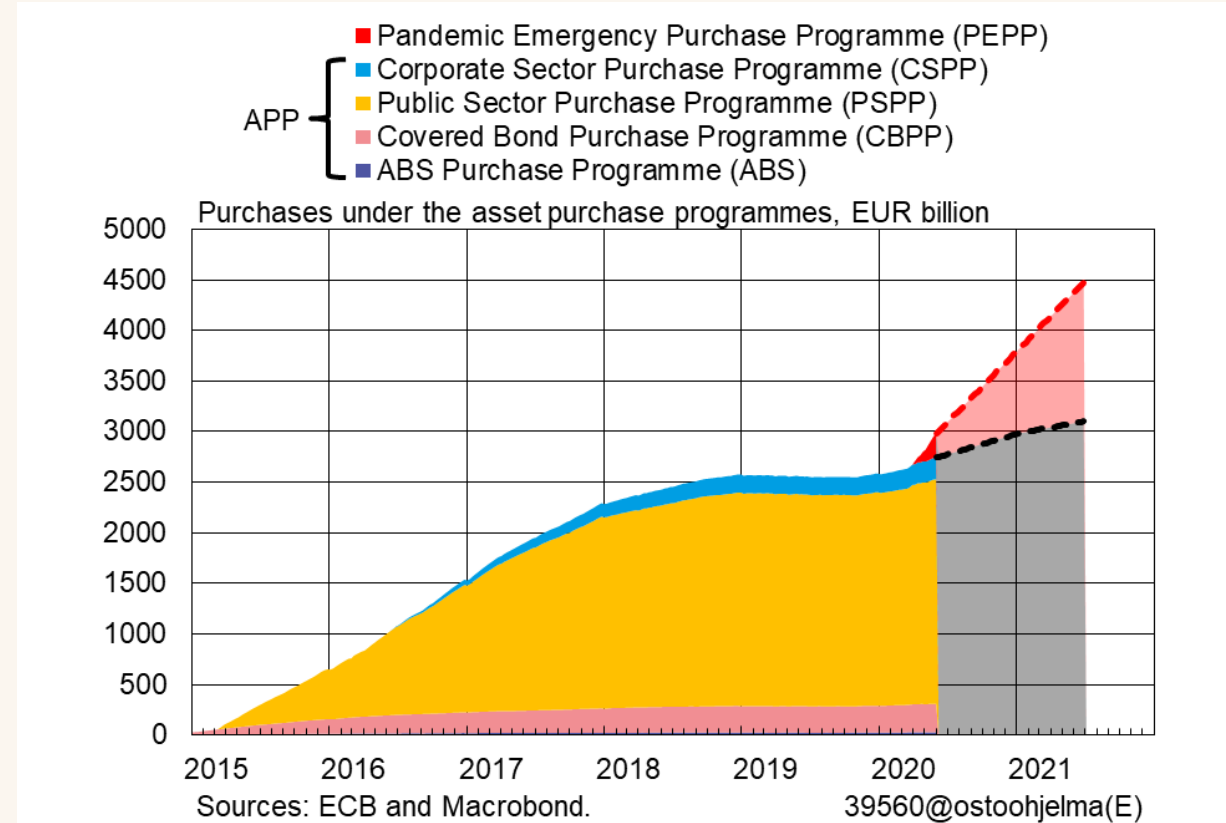
Market expectations derived from inflation swaps.

Sources: ECB, Bloomberg, Consensus and calculations by the Bank of Finland. 32426@odotusSPF

At the same time, the probability of a decline in prices during the next 5 years has increased according to options prices.

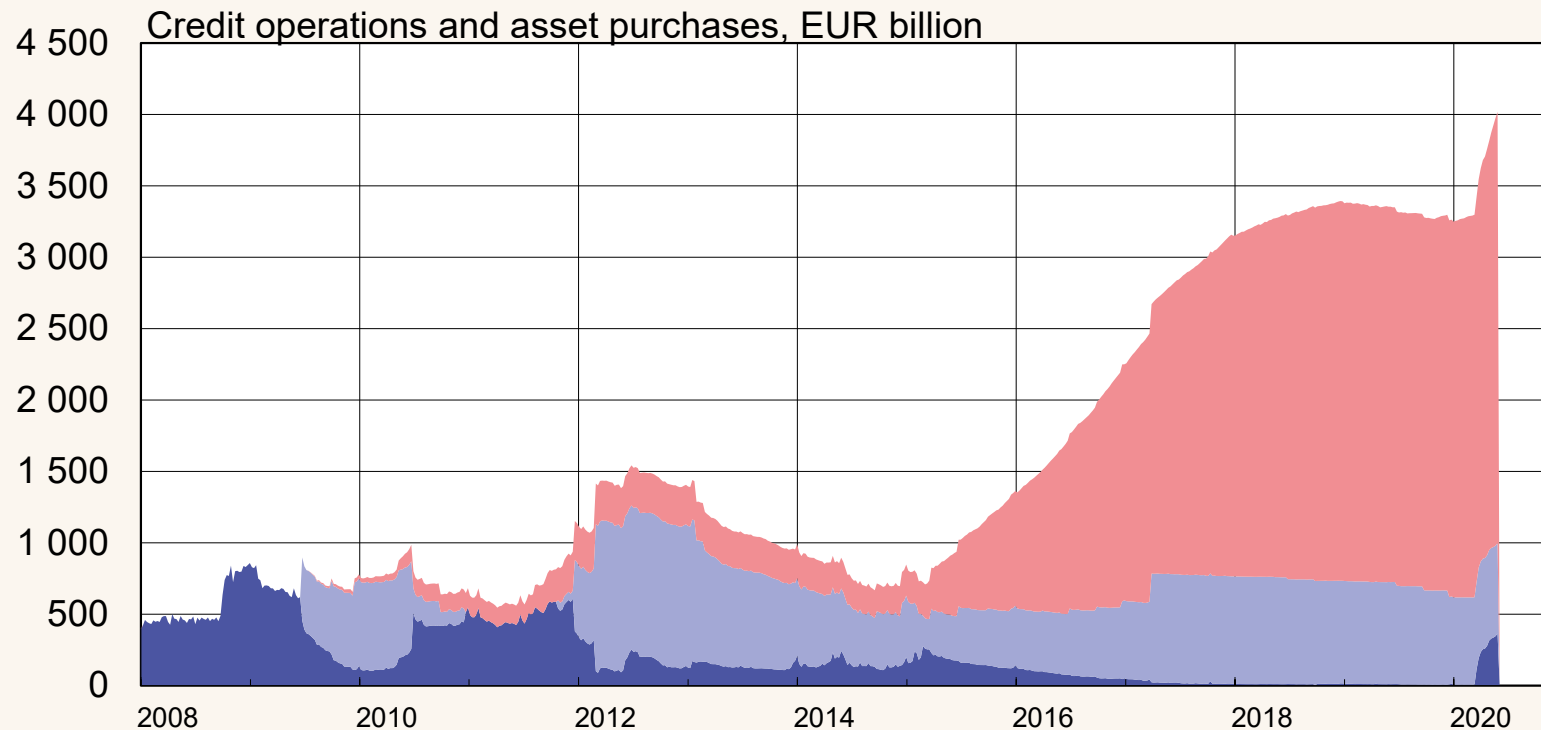
The ECB keeps financing conditions very accommodative, thus supporting euro area economies through the crisis

- On 18 March, the ECB decided on a EUR 750 billion Pandemic Emergency Purchase Programme (PEPP) until the end of 2020.
- **On 4 June, the ECB decided to increase and extend the PEPP**
 - The envelope will be increased by EUR 600 billion, to a total of EUR 1,350 billion (red line)
 - Purchases will be extended to at least the end of June 2021.
 - Maturing principal payments will be reinvested at least until the end of 2022.
- Net purchases under the APP will continue at a monthly pace of EUR 20 billion, together with the purchases of EUR 120 billion until the end of the year (black line).



The Eurosystem monetary policy operations help channel financing to households and firms

- Securities held for monetary policy purposes
- Additional monetary policy operations of 12 months or more and targeted refinancing operations
- Regular and other short-term monetary policy operations



Source: ECB.

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Some EU countries are on the brink of severe economic distress

- The recession of the European economy poses a threat to Finnish economy, especially to Finnish exports.
- Many Member States have introduced extensive fiscal policy measures – not all have fiscal space.
- We also need common European solutions: temporary, rapid and sufficiently large – sustainability, digital economy
- The Commission's proposal for a European recovery fund would bring fiscal policy to the forefront of crisis resolution, alongside monetary policy.
- Rather than a partial assessment, should the recovery fund be subject to a **comprehensive** assessment?

General government debt will rise to new levels in 2020



Source: ECB.
Forecast: Eurosystem staff macroeconomic projections, June 2020.



Source: European Commission forecast, May 2020.

- Improving the conditions for sustainable growth: reforms and investments
- Right timing and targeting of fiscal stimulus
- In the good times, we must prepare for the bad

Economic policy and fiscal support during the coronavirus crisis: focus during various stages



Securing and strengthening employment during the recovery phase

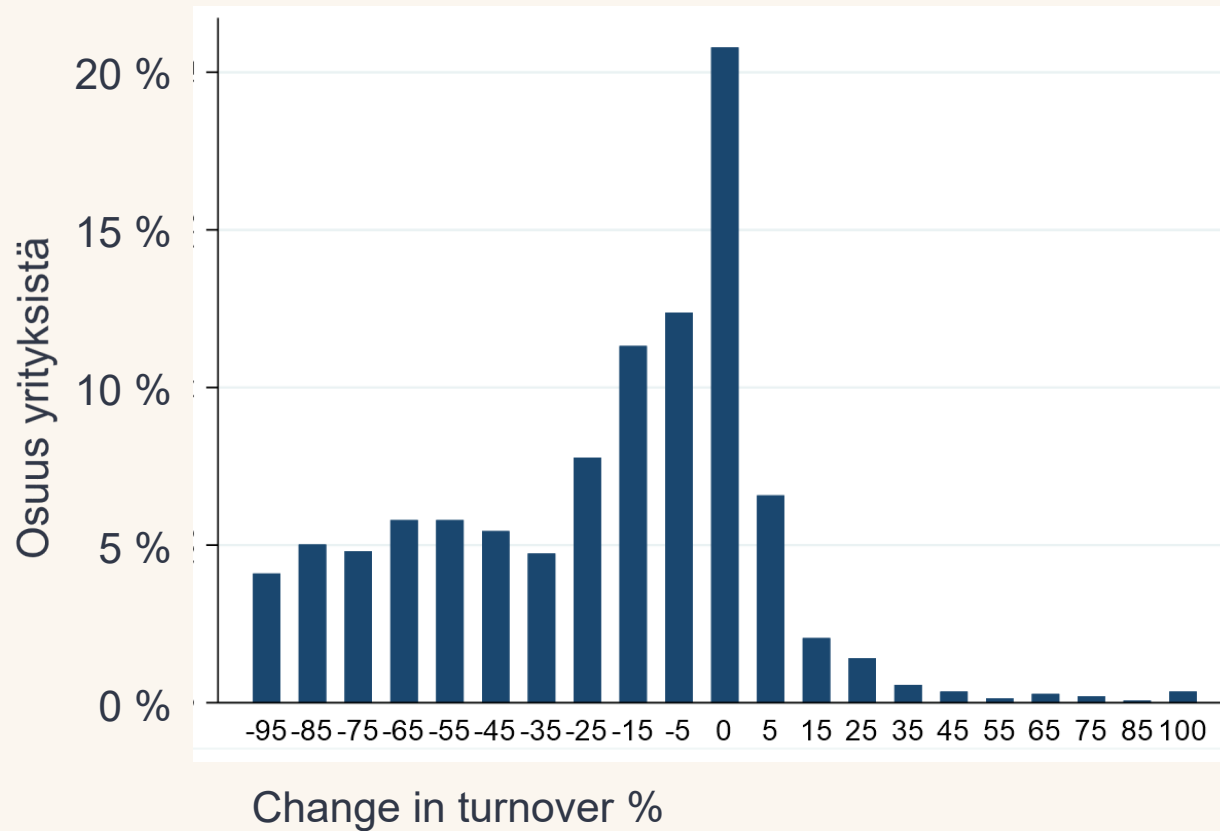
- Crises have often left a lasting mark on employment
 - Some of those who have lost their job may be left outside the labour market
 - The young are unable to gain a foothold in the labour market
- The correct incentives for employment should be in place during the recovery phase.
- Social partners took responsibility in the early phase of the crisis: expedited furlough schemes likely prevented many bankruptcies and redundancies.

Company data: furloughing has helped stave off redundancies

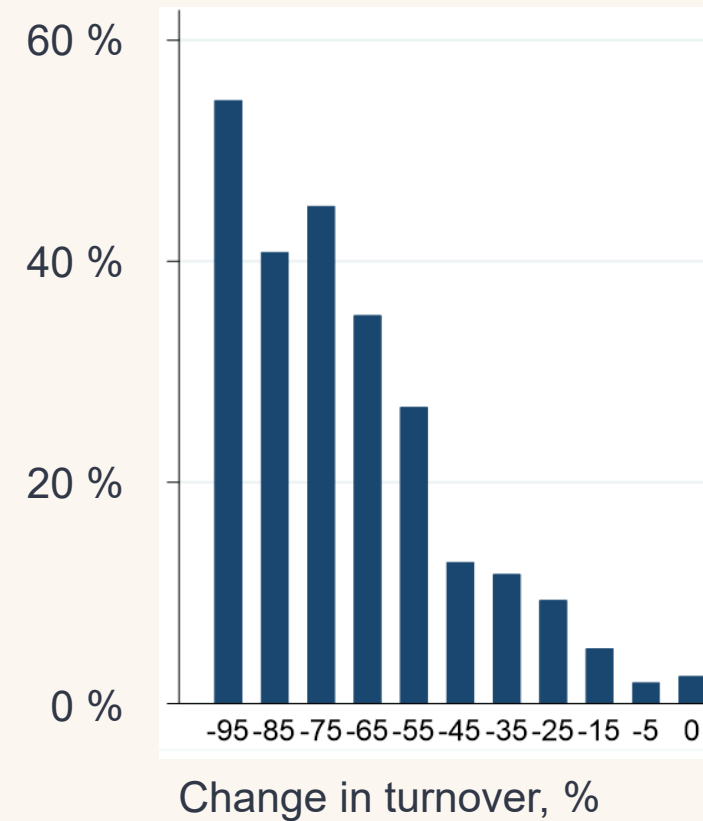
Petri Mäki-Fränti and Juuso Vanhala: Yritykset vastaavat koronakriisiin työkustannuksia sopeuttamalla www.eurojatalous.fi

Situation in March-April 2020 compared with a year earlier

Distribution of companies based on changes in turnover

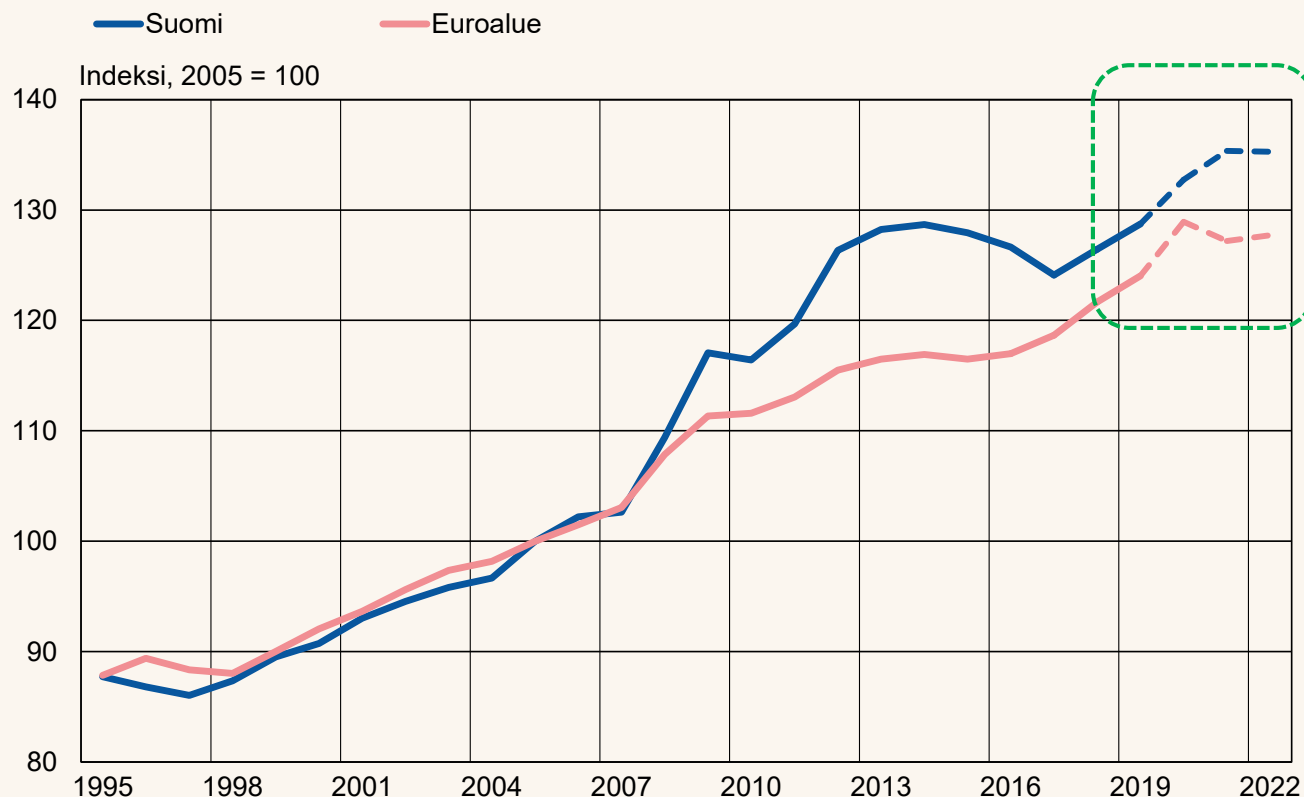


Size of labour cost adjustments in companies with a decline in turnover



If forecasts hold true, Finland's cost-competitiveness will weaken

Unit labour costs adjusted for terms of trade



Lähteet: Tilastokeskus, Eurostat sekä Suomen Pankin ja EKP:n kesäkuun 2020 ennusteet.

9.6.2020
eurojatalous.fi
38284@Kustannuskilpailukyky (E)

- The forecast points towards a risk that must be monitored
- Considerable uncertainty now surrounding the future:
 - How will wages adjust in other countries?
 - How rapidly will economies recover?
- At the turn of the year, the outlook was completely different
- If cost-competitiveness threatens to diminish, will the collective bargaining system offer relief?

While the worst did not transpire during the corona spring, the future is surrounded by high uncertainty and we mustn't fade in the second half

- We are hopefully entering a phase where lockdown measures may continue to be lifted in different countries and where output will begin to grow
- In Finland economic policy has responded on many fronts and the worst has been avoided
 - No large waves of bankruptcies
 - Furlough schemes have meant that redundancies have remained fewer in number than initially feared
- But future developments are surrounded by uncertainty
 - Will there be a second wave of the epidemic?
 - Domestic demand is recovering, but the outlook for exports is weak
 - The threat of an increase in loan losses

Economic policy must now look at the stimulus phase, but also the longer-term outlook

- Economic policy must prove successful in responding to:
 - The circumstances at hand: timing, targeting and size of stimulus measures
 - The need to support the now weaker longer-term outlook
- At centre stage are reforms that will secure the welfare state and strengthen fiscal sustainability:
 - Raising the employment rate in a persistent manner
 - Implementation of health and social services reform that will curb growth in spending
- Meanwhile — tomorrow's challenges are here today:
 - Productivity growth in the economy
 - Sustainable development and climate change

A blue-tinted photograph of a classical building facade, likely the Finnish Bank building in Helsinki. The image shows a multi-story building with arched windows and classical architectural details. In the foreground, there are ornate street lamps and a paved area. The text "Thank you!" is overlaid in the center, and "bof.fi" is overlaid below it. The building's name "SUOMEN PANKKI" and "FINLANDS BANK" are visible on the facade.

Thank you!

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