



Bank of Finland Bulletin Press Briefing, 1 October 2024

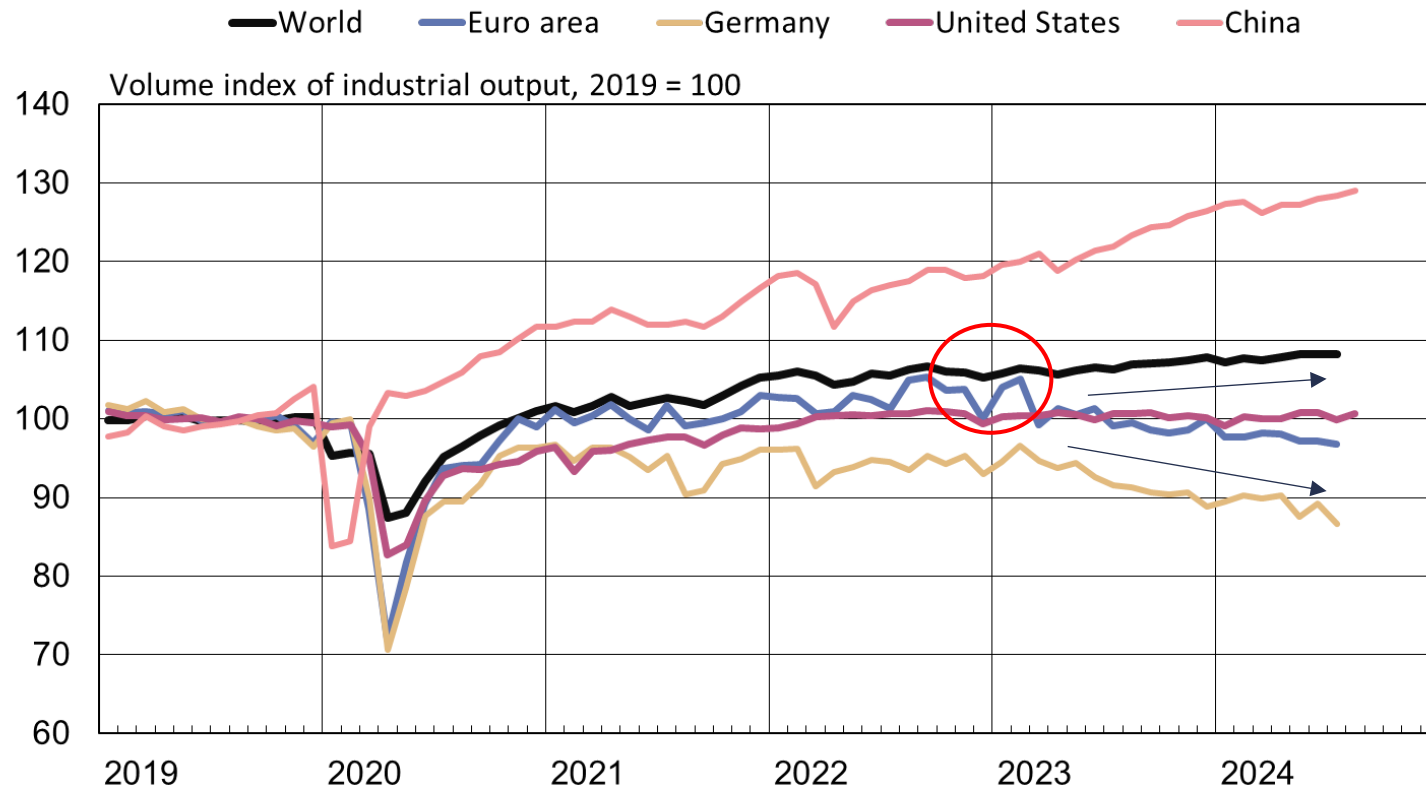
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Industrial output in the euro area has long been weak – no strong rise is in sight

Industrial output weak in the euro area, especially Germany



Sources: Eurostat, Federal Reserve, World Bank and CPB Netherlands Bureau for Economic Policy Analysis.

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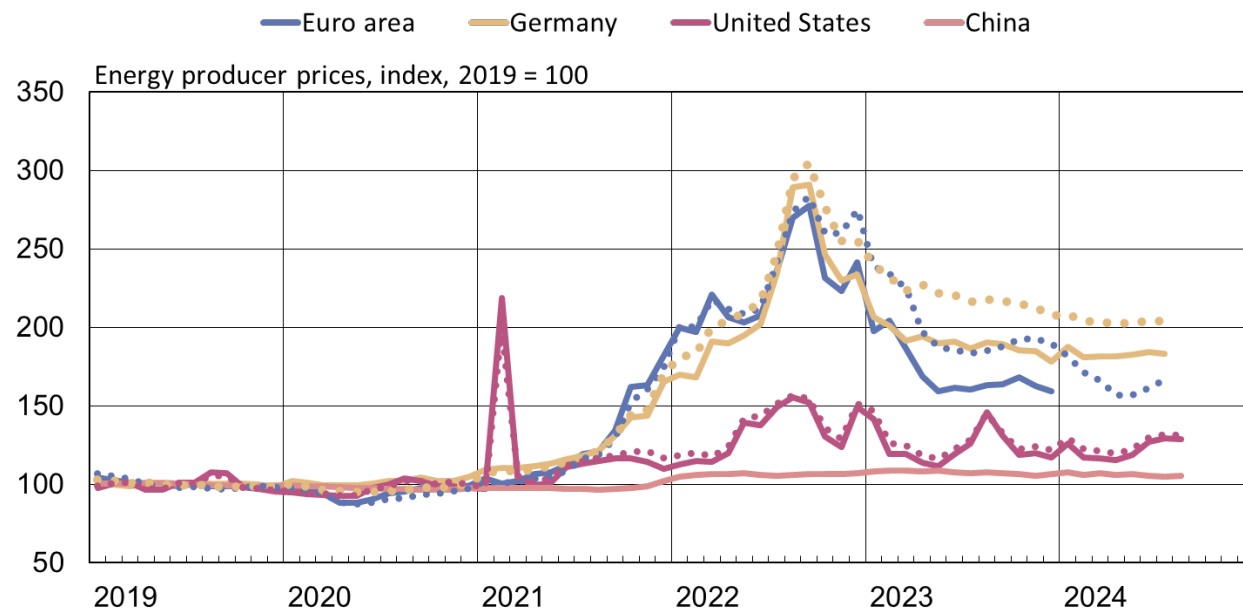
- The industrial output gap between the euro area and other major economic regions widened in 2023 – what are the reasons for this?

Is the weakness in the euro area's manufacturing cyclical or permanent?

- The weakness reflects the energy price shock, i.e. the substantial supply shock following Russia's invasion of Ukraine.
- Previous studies point to a lagged pass-through of energy price shocks to the real economy.
- Industrial output was still being supported by demand in 2022, but its positive impact began to fade at the beginning of 2023 (Anttonen & Lehmus 2024).
- Other factors: technology changes and a shift in consumer preferences in the car industry, slow pace of green transition.
- In addition, political, economic and geopolitical uncertainty.

Electricity producer prices in the euro area have not returned to former level

Energy producer prices have increased in the euro area significantly more than in other main economic areas



Electricity producer prices with a solid line and electricity and gas producer prices with a dashed line.

Sources: Eurostat, BLS and NBS.

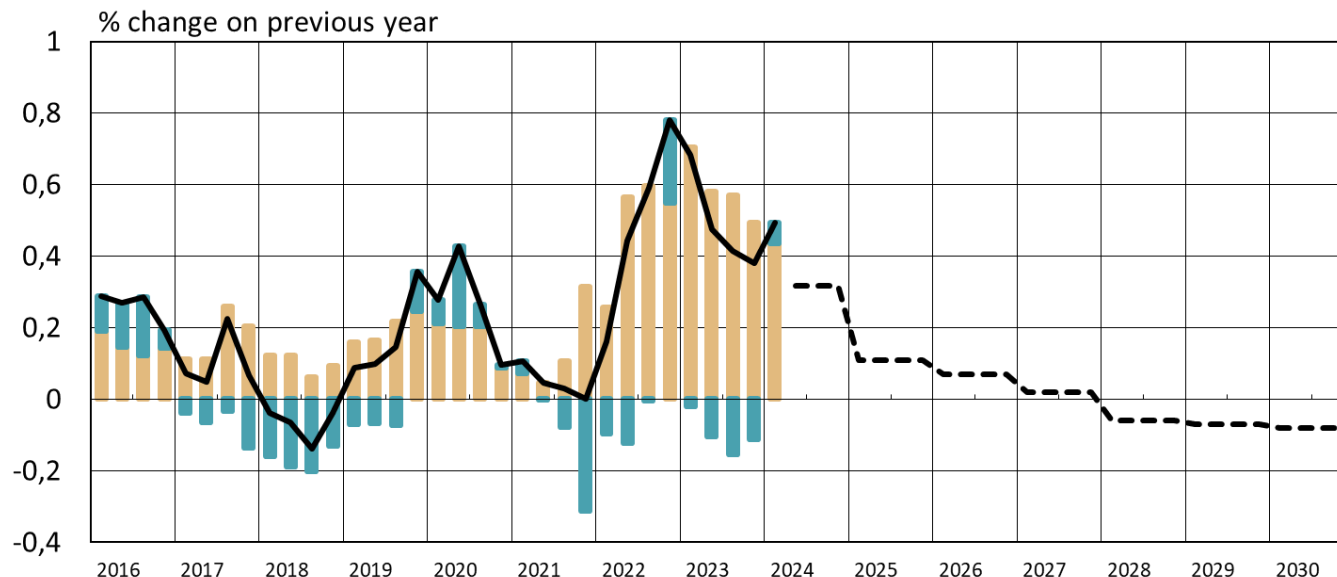
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- In the euro area, producer prices for electricity and gas in June 2024 were still around 60% higher than their 2019 average.
- Electricity and gas producer prices were especially high in Germany.
- The difference in electricity producer prices relative to the competitor countries is leaving a permanent mark on the competitiveness of manufacturing in the euro area.

Feature article 1. Euro area labour force growth reliant on net immigration

■ Increase in working-age population excl. extra-EU immigration
■ Impact of extra-EU immigrants on the increase in the working-age population
— Annual growth in working-age population
- - - Forecast for annual growth in working-age population



- Immigration has increased the size of the labour force.
- Population ageing will be increasingly evident in the euro area labour market
 - The size of the working-age population will decline, but immigration is deferring this.

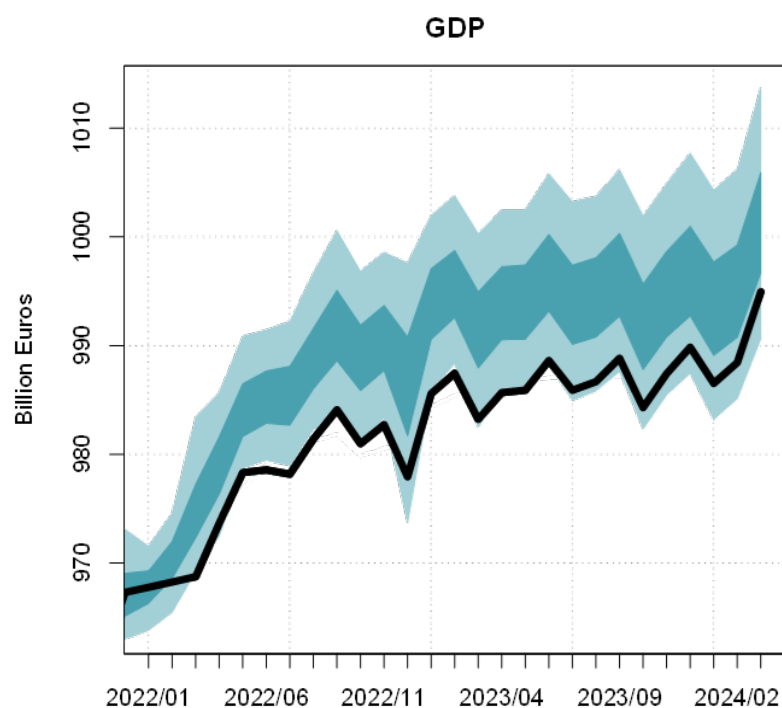
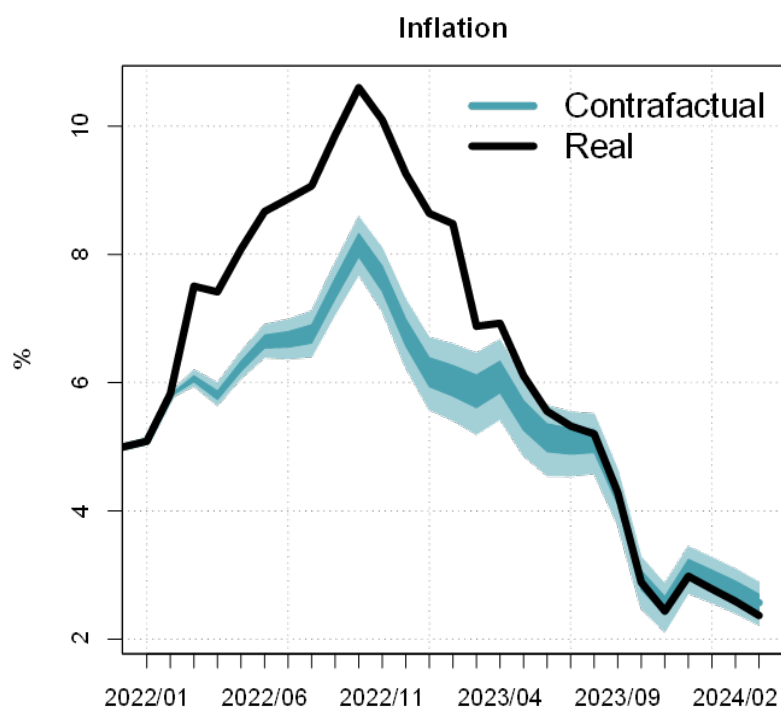
Sources: Eurostat Labour Force Survey, Population Projection and calculations by the Bank of Finland.

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Feature article 2. Consequences of geopolitical surprises: Russia's invasion of Ukraine fuelled inflation and slowed GDP growth

Contrafactual without shocks potentially related to the Russian invasion of Ukraine



- Russia's invasion of Ukraine was a geopolitical surprise that coincided with a supply shock.
- Without Russia's attack, euro area inflation would have been over 2 percentage points lower and GDP about 1% higher.
- The feature article also discusses the macroeconomic implications of the Israeli-Hamas war.

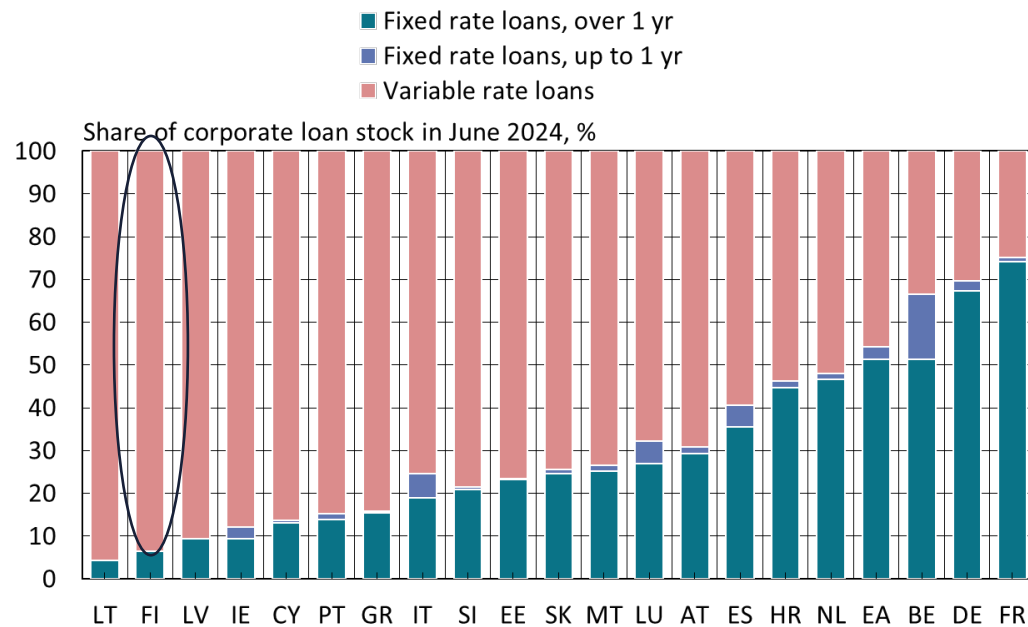
Source: calculations by the Bank of Finland.

Feature article 2: Geopolitics also has a bearing on the monetary policy environment

- Feature article on the consequences of geopolitical surprises:
 1. The impact on inflation of geopolitical surprises is not straightforward but depends on the nature of the geopolitical surprise.
 2. Geopolitical surprises that increase uncertainty have a clearly negative impact on GDP.
 3. Whether the geopolitical surprise is associated with supply or demand factors must be interpreted case by case. Only after this will it be possible to assess its impact on inflation.

Feature article 3. Very high proportion of corporate loans in France and Germany are fixed rate loans

Share of fixed rate corporate loans varies considerably by country

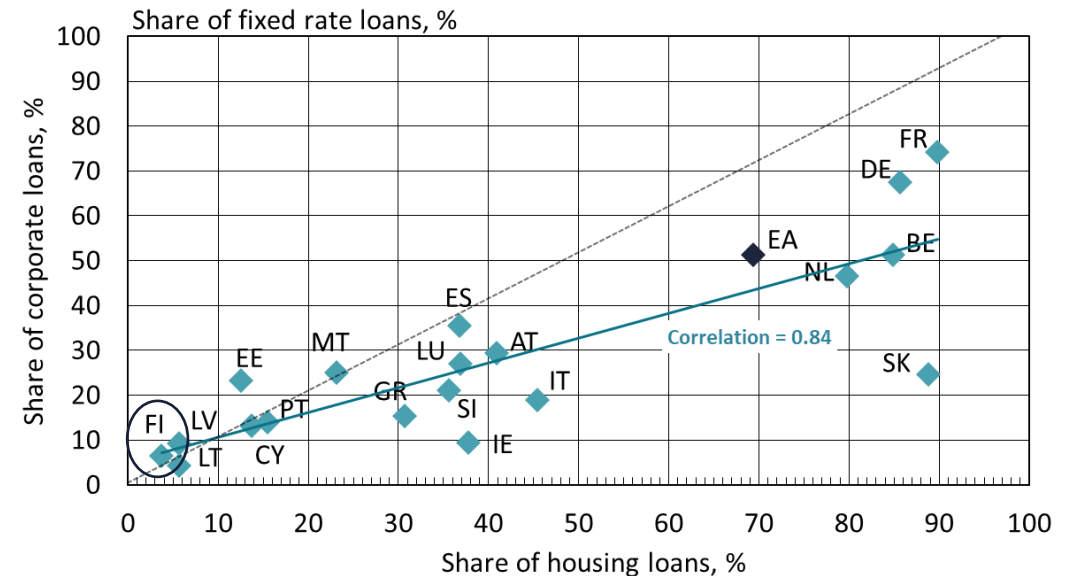


Sources: ECB and calculations by the Bank of Finland.
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NOTE: the average maturity for fixed rate corporate loans is 11 years.

Country-specific differences in the proportions of fixed and variable rate loans are roughly the same for both corporate and housing loans



Corporate loans: share of loan stock in June 2024, includes only fixed rate loans of over 1 year.
Housing loans: share of new loans, average for 2003–2024.

Sources: ECB and calculations by the Bank of Finland.

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Feature article 3: Key messages

- Monetary policy is transmitted to fixed rate loans after a time lag.
 - A large proportion of corporate loans are fixed, low-rate debt that matures only after many years.
 - Consequently, the average interest rate on the aggregate corporate loan stock will fall slowly despite the interest rate cuts.
- The pace at which monetary policy is transmitted to bank loans varies by country and industry.
 - Approximately half of euro area corporate loans are fixed rate loans, but the proportion varies **from below 10% in Finland to over 70% in France and Belgium.**
 - Monetary policy is transmitted faster to manufacturing and construction than to other industries.



Thank you for your attention!

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