

SUOMEN PANKKI
EUROJÄRJESTELMÄ



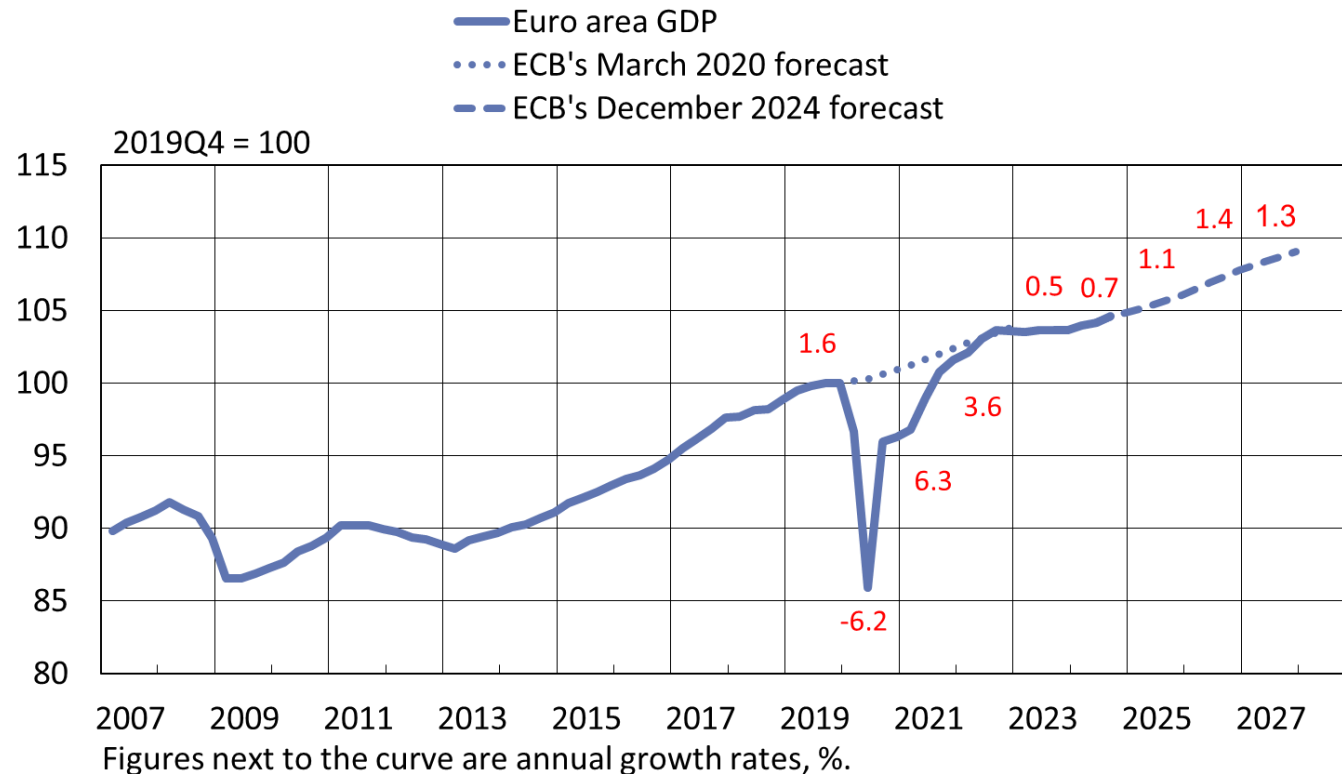
FINLANDS BANK
EUROSYSTEMET

Inflation is stabilising at the target, economic growth is picking up slowly

Bank of Finland Bulletin press briefing
17 December 2024

Governor Olli Rehn
Suomen Pankki

Euro area economy is picking up slowly

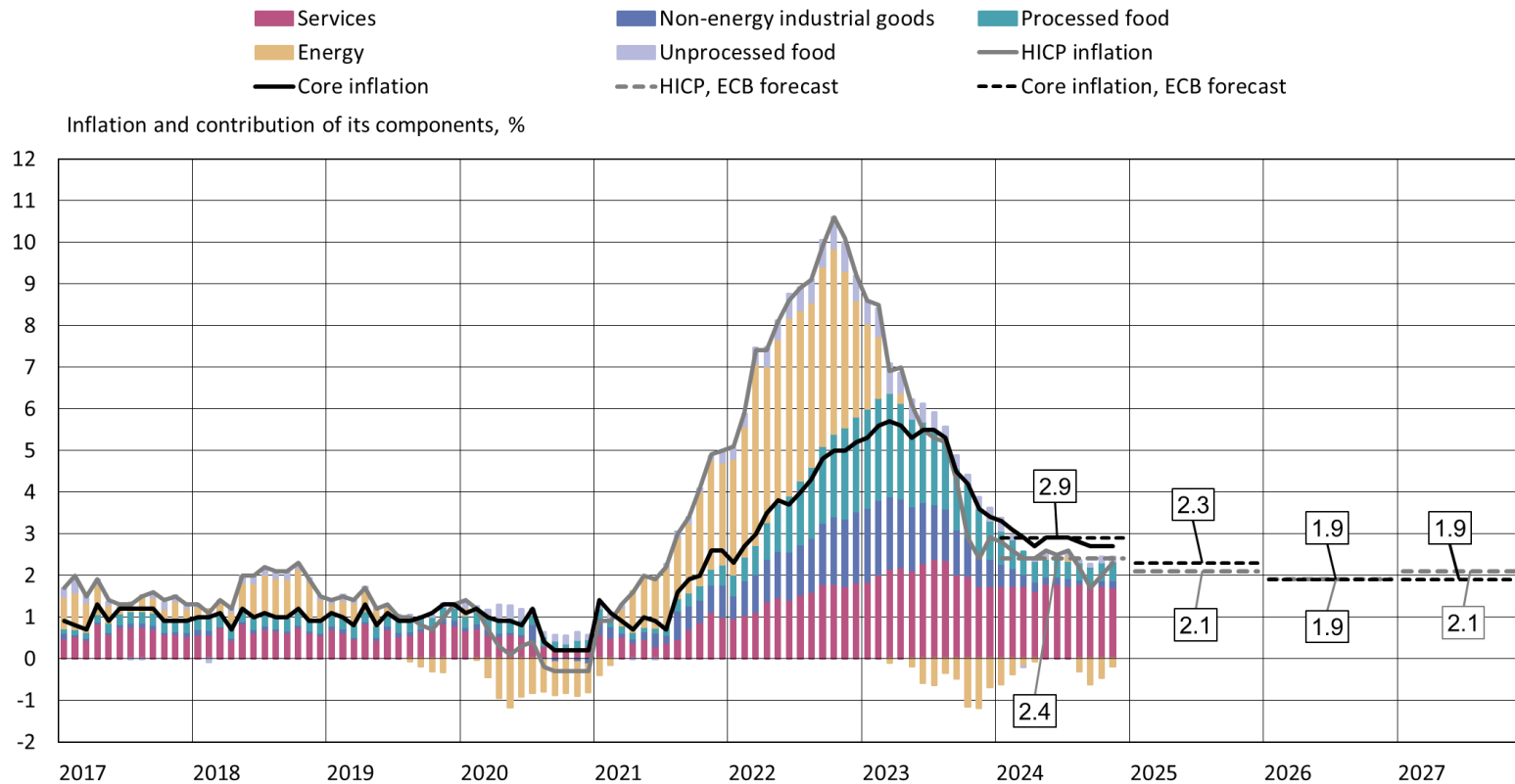


Sources: Eurostat and ECB.

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- The growth outlook has weakened since the ECB's September forecast – the forecast has been revised downwards.
- GDP growth will strengthen gradually, as purchasing power is bolstered by growth in household real income.
- Interest rate cuts, too, will strengthen consumption and investment in the euro area over time.

Euro area inflation is stabilising at the 2% target



- More signs that wage inflation is slowing.
- Most measures of underlying inflation, too, suggest that inflation will settle at around the ECB's 2% medium-term target on a sustained basis.

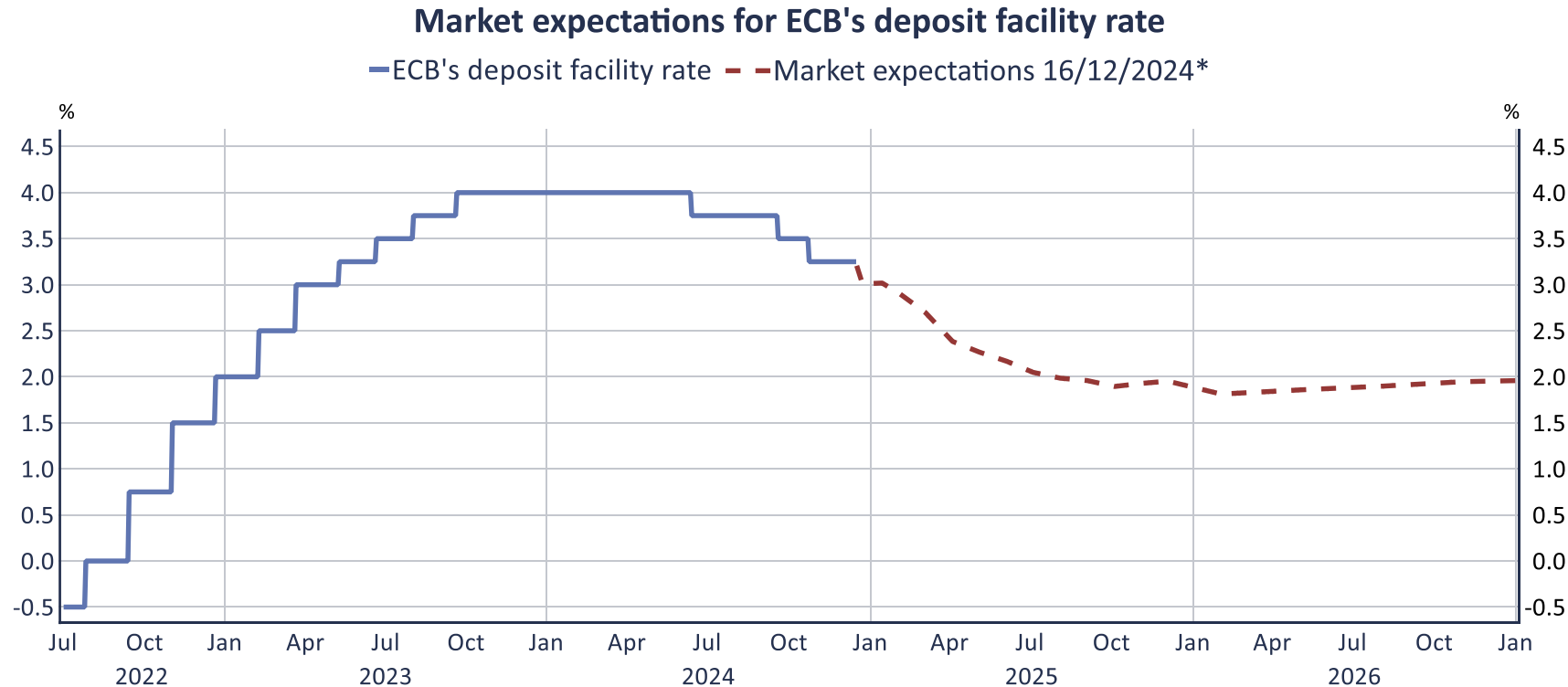
Sources: Eurostat and ECB.

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ECB's decision to ease monetary policy was spurred by projected stabilisation of inflation and weakening growth

- The ECB's Governing Council decided at its December meeting to lower the three key ECB interest rates by 0.25 percentage points. The deposit facility rate (DFR) – the rate through which the Governing Council steers the monetary policy stance – is now 3.0%.
- The rate cut decision on 12 December was the fourth this year. Since June, the Governing Council has lowered the main policy rate by a total of one percentage point, from 4% to 3%.
- Reference to restrictive monetary policy (“policy rates sufficiently restrictive for as long as necessary”) was removed from the Governing Council’s communications.
- The direction of our monetary policy is clear. The pace and scale of the rate cuts will be determined meeting by meeting.
- We are determined to ensure that inflation stabilises sustainably at our 2% medium-term target.

Market-based indicators show expectation that ECB will continue to cut policy rates



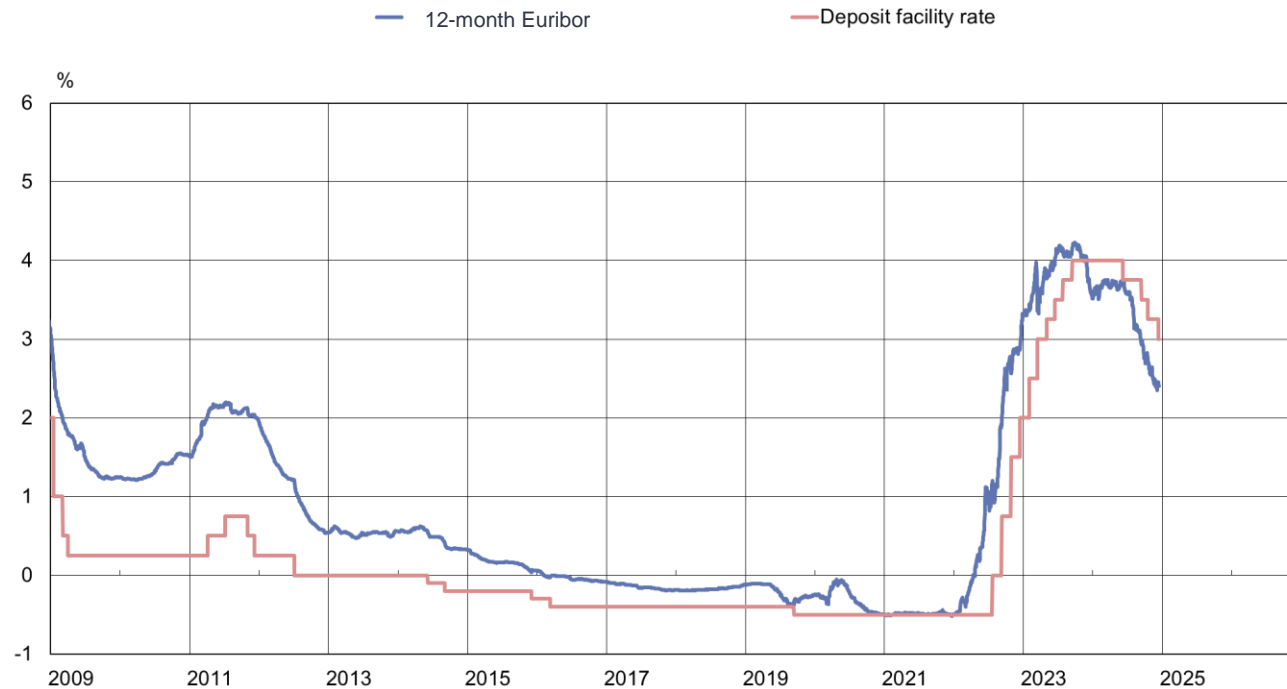
Source: Bloomberg.

*Bank of Finland's calculations based on €STR OIS rates and an assumption of constant 10 bps spread between ECB's deposit rate and €STR.

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Interest rate cuts supporting economic growth in the euro area and in Finland

Main interest rates



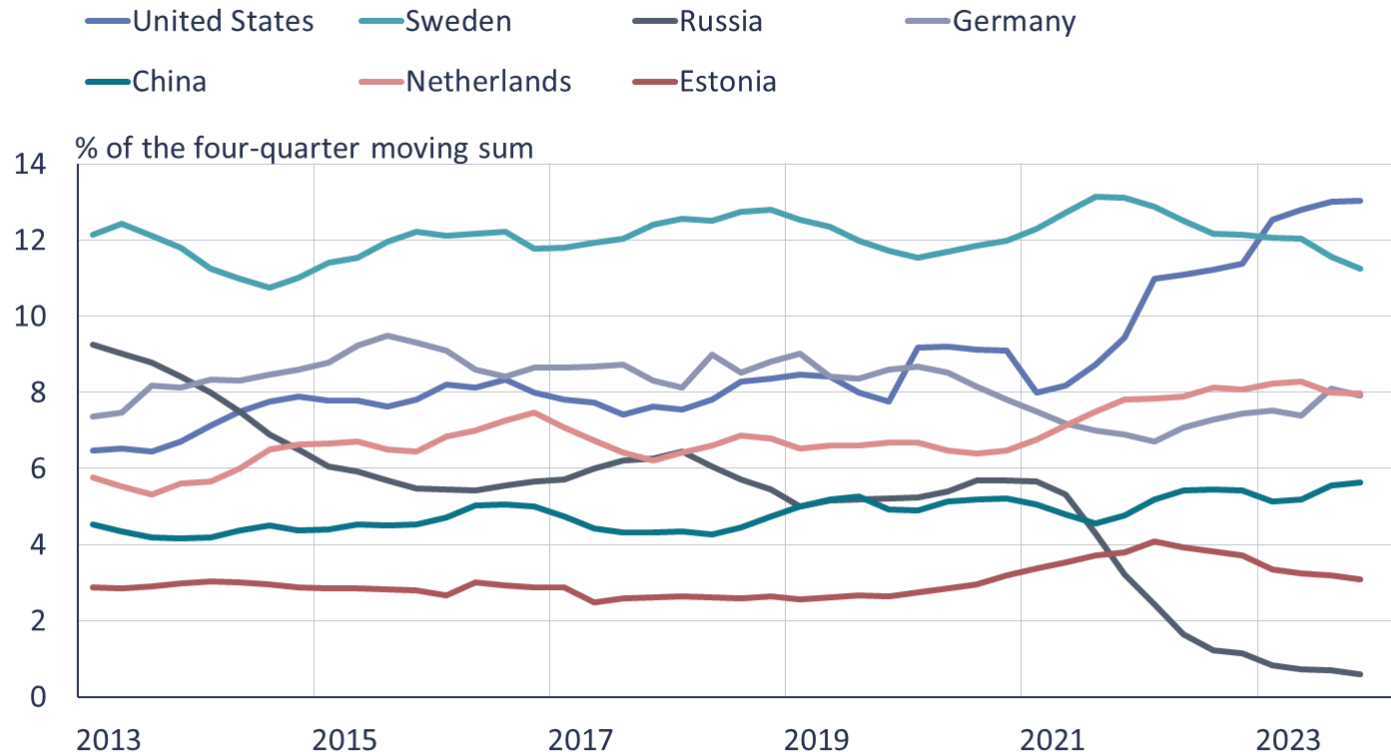
Sources: ECB and EMMI.

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- The most important reference rate for housing loans in Finland, the 12-month Euribor rate, is now 2.4% (16 Dec 2024).
- The 12-month Euribor has come down from its peak by 1.8 percentage points.
- For comparison: in 1999-2008 it was on average 3.4 %.

Finland's second most important export market after Europe is the United States

United States' relative share of goods exports has grown significantly



Source: Statistics Finland.

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- 66% of Finland's total exports go to Europe.
- The second most important export market after Europe is the United States (13%).
- The share of services in Finland's exports has grown rapidly (30%).

IT services are a key part of Finland's service exports

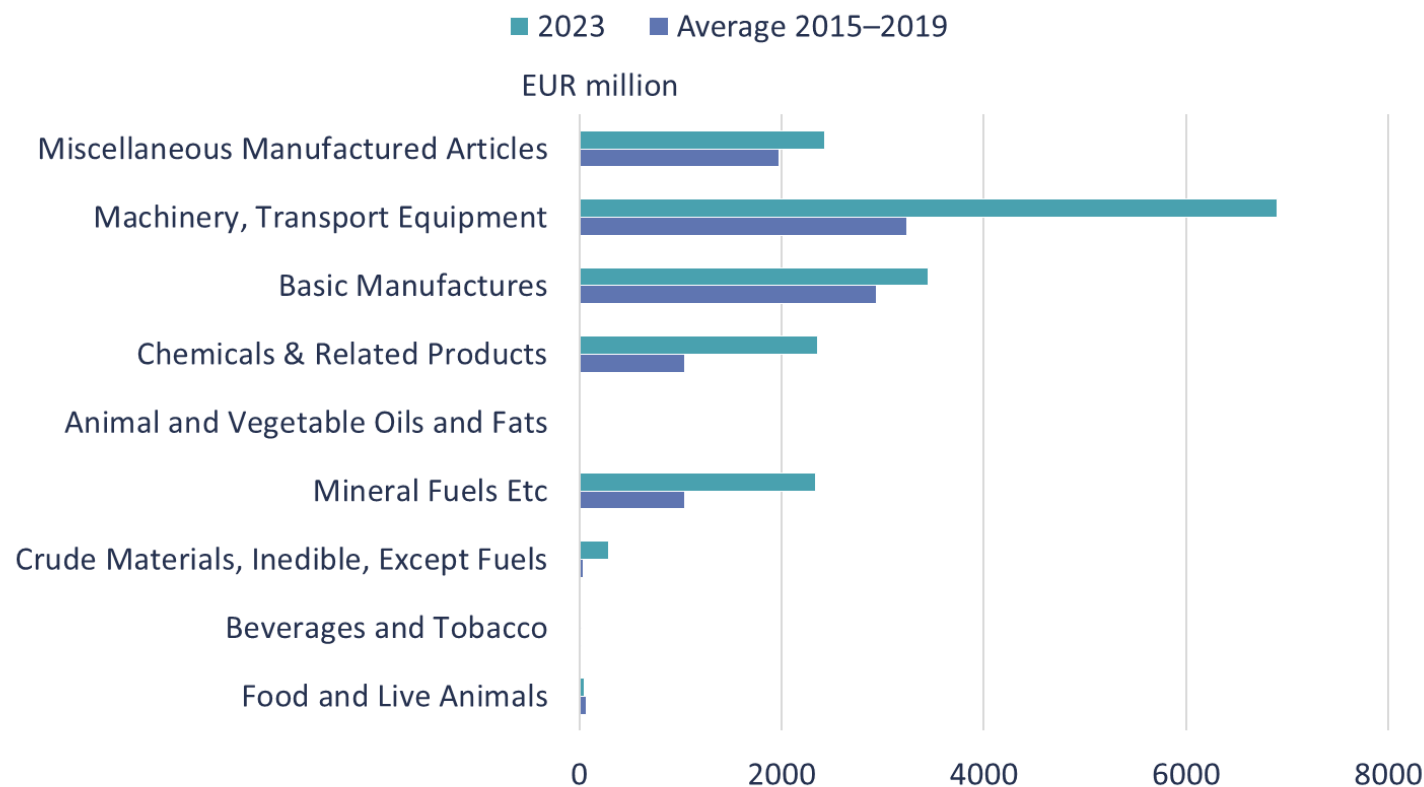
Petri Mäki-Fränti and Hannu Viertola

Alternative scenario: Import tariffs and trade policy uncertainty will dampen economic growth

Petteri Juvonen, Aino Silvo and Hannu Viertola

Finland's goods exports to the United States have increased in recent years

Value of goods exports to the United States



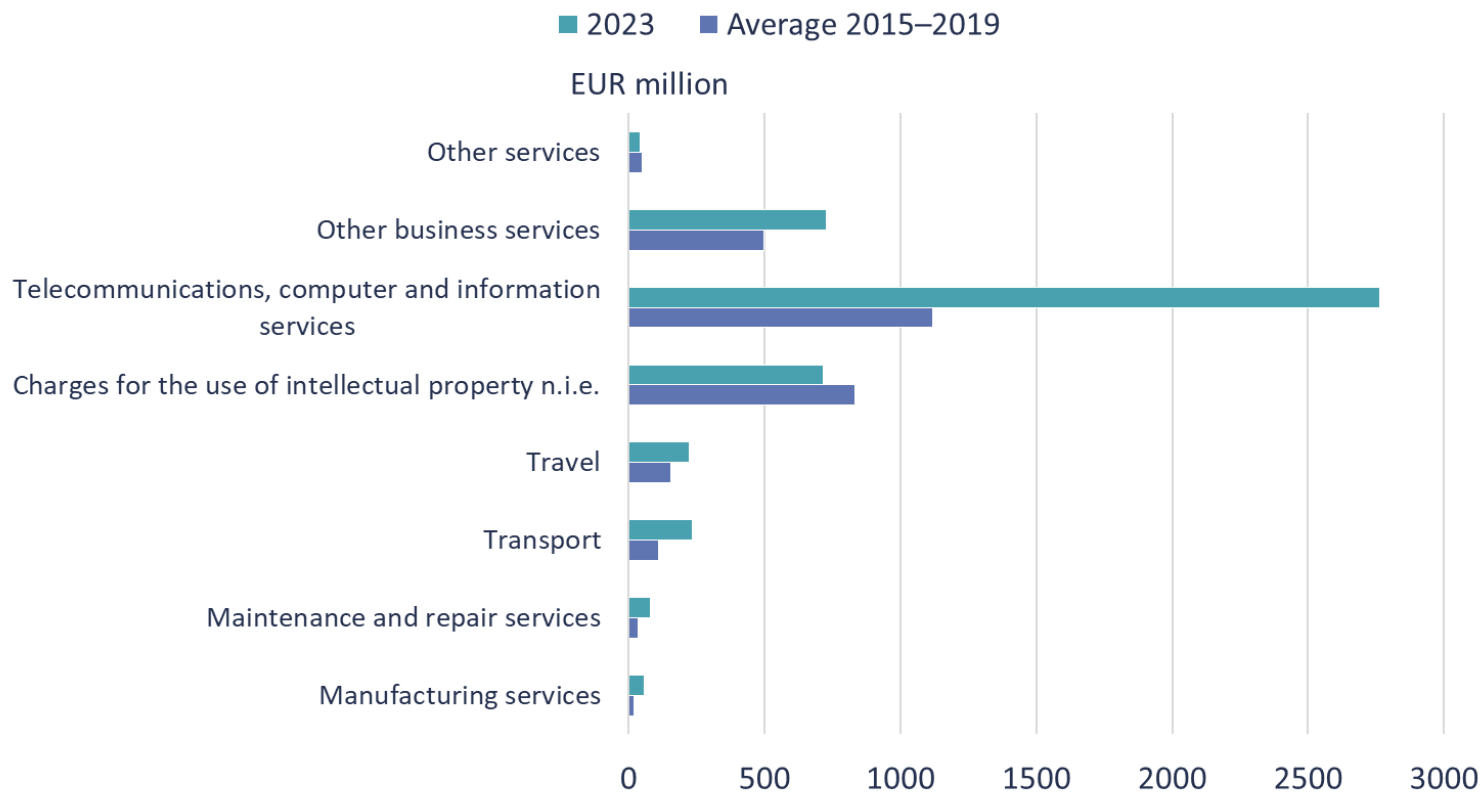
- About 70% of Finland's exports to the United States are goods exports.
- The growth in goods exports to the United States has been particularly in shipbuilding and the manufacture of machinery and equipment.

Source: Finnish Customs.

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Rapid growth in exports to the United States of services requiring advanced expertise

Value of services exports to the United States



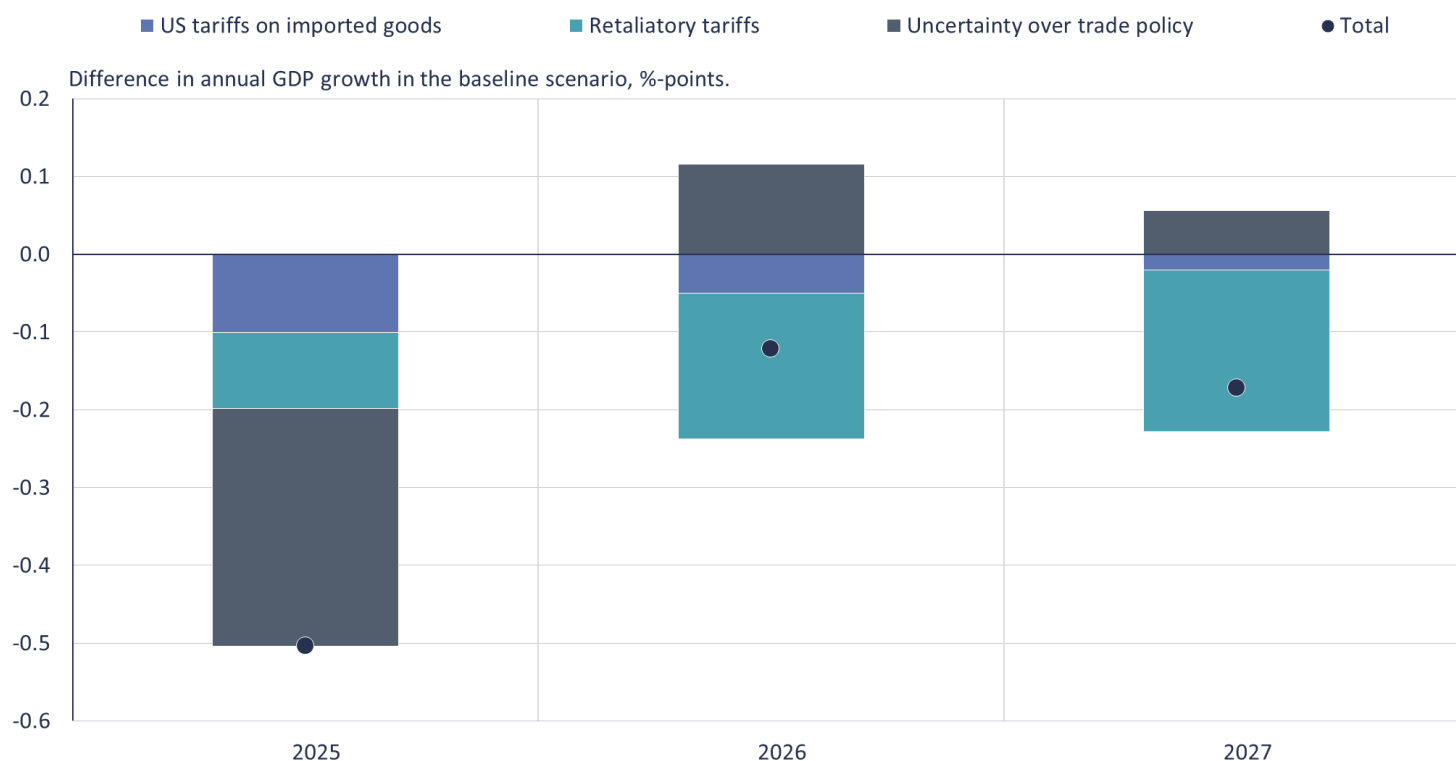
- About 40% of Finland’s services exports go to the United States, Sweden and Germany.
- Services exports to the United States have a strong focus on IT services.
- The importance of services exports is greater than their size: the share of domestic value-added is typically larger than in goods exports.

Source: Statistics Finland.

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US tariffs on imported goods would dampen growth in Finland's economy

Tariffs on imported goods planned by the United States would dampen growth in Finland's economy



- US tariffs on imported goods and retaliatory tariffs on its goods exports to the rest of the world would dampen growth in Finland's economy.
- Uncertainty over trade policy is eroding investments globally, weakening Finland's export demand and dampening growth in the economy.
- Changes in exchange rates may also have a considerable impact, but the extent of this is difficult to estimate.

Source: Bank of Finland.
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Assessment of public finances 2024: Sustained efforts needed to turn around the trend in Finland's public debt ratio

- Finland's public finances are still far from being in balance, and the public debt-to-GDP ratio will rise in the years ahead.
- The new EU fiscal rules set ambitious adjustment targets for Finland.
 - The debt sustainability safeguard and its adjustment requirement are binding on Finland.
 - Compliance with the expenditure rule requires the full implementation of measures already decided – fiscal consolidation must continue in the coming parliamentary terms.
 - Also requires successful implementation of structural reforms.

Meeting the long-term challenges in Finland's economy calls for a two-pronged approach

1. Fiscal sustainability must be ensured.
 - Turning the debt ratio around with long-term fiscal consolidation measures
 - Joint target for fiscal balance and broad parliamentary commitment
2. Preconditions for sustainable growth must be reinforced in a long-term manner.
 - Investment in human capital, particularly in tertiary education and the high-level research that supports it, and in the immigration of skilled labour
 - Ensuring access to finance for startups and other businesses at their growth stage by promoting the European and Finnish capital markets

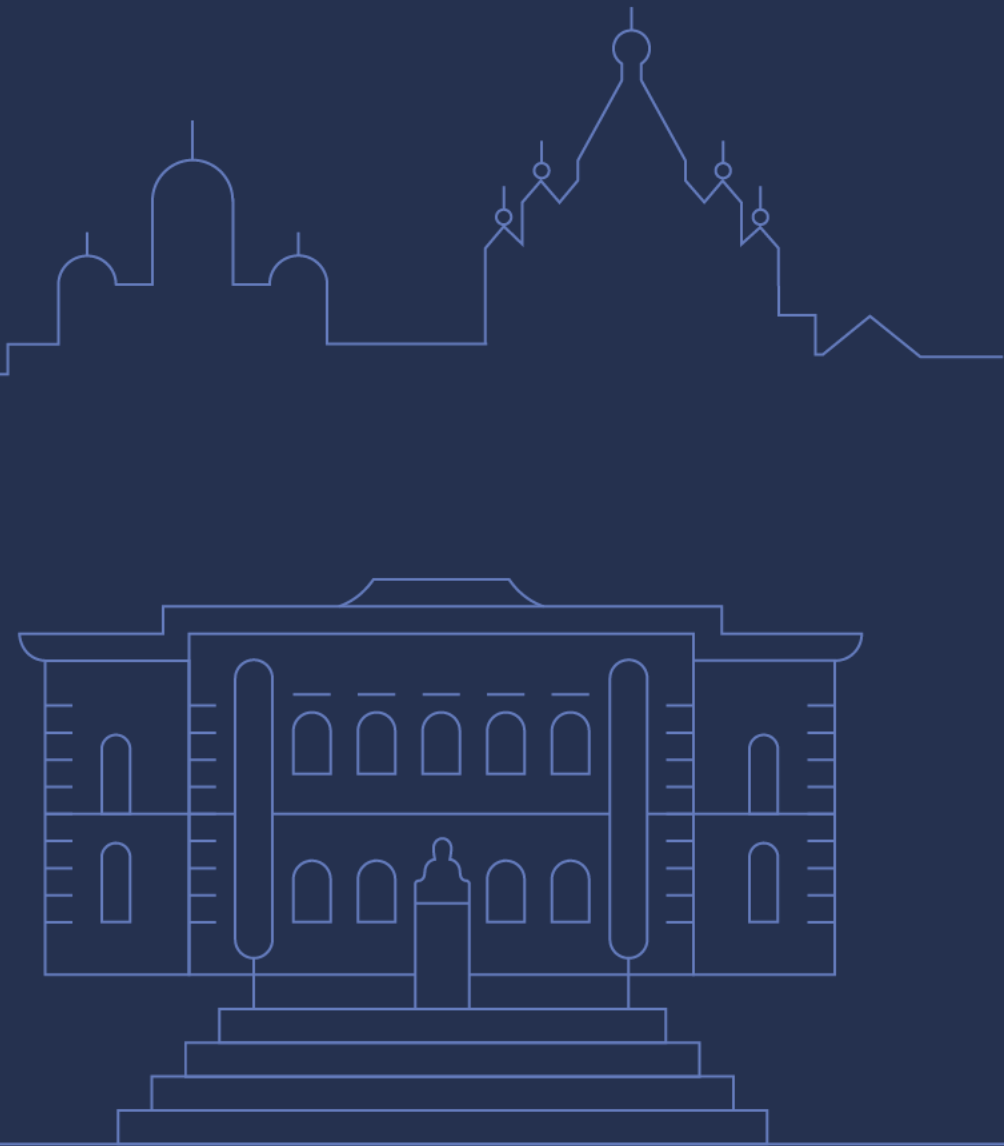
Main messages

- The ECB's December decision to further ease monetary policy was spurred by the projected stabilisation of inflation and weakening growth.
- GDP growth is projected to strengthen gradually in the euro area and in Finland.
- US tariffs on imported goods would hamper Finland's goods exports and dampen growth in the economy.
- Turning Finland's debt ratio around requires determined and sustainable fiscal consolidation measures.
- At the same time, the focus must be on policies that support productivity growth and promote sustainable economic growth.



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Vakauden puolesta,
tutkitun tiedon pohjalta.



Kiitos!