

SUOMEN PANKKI  
EUROJÄRJESTELMÄ



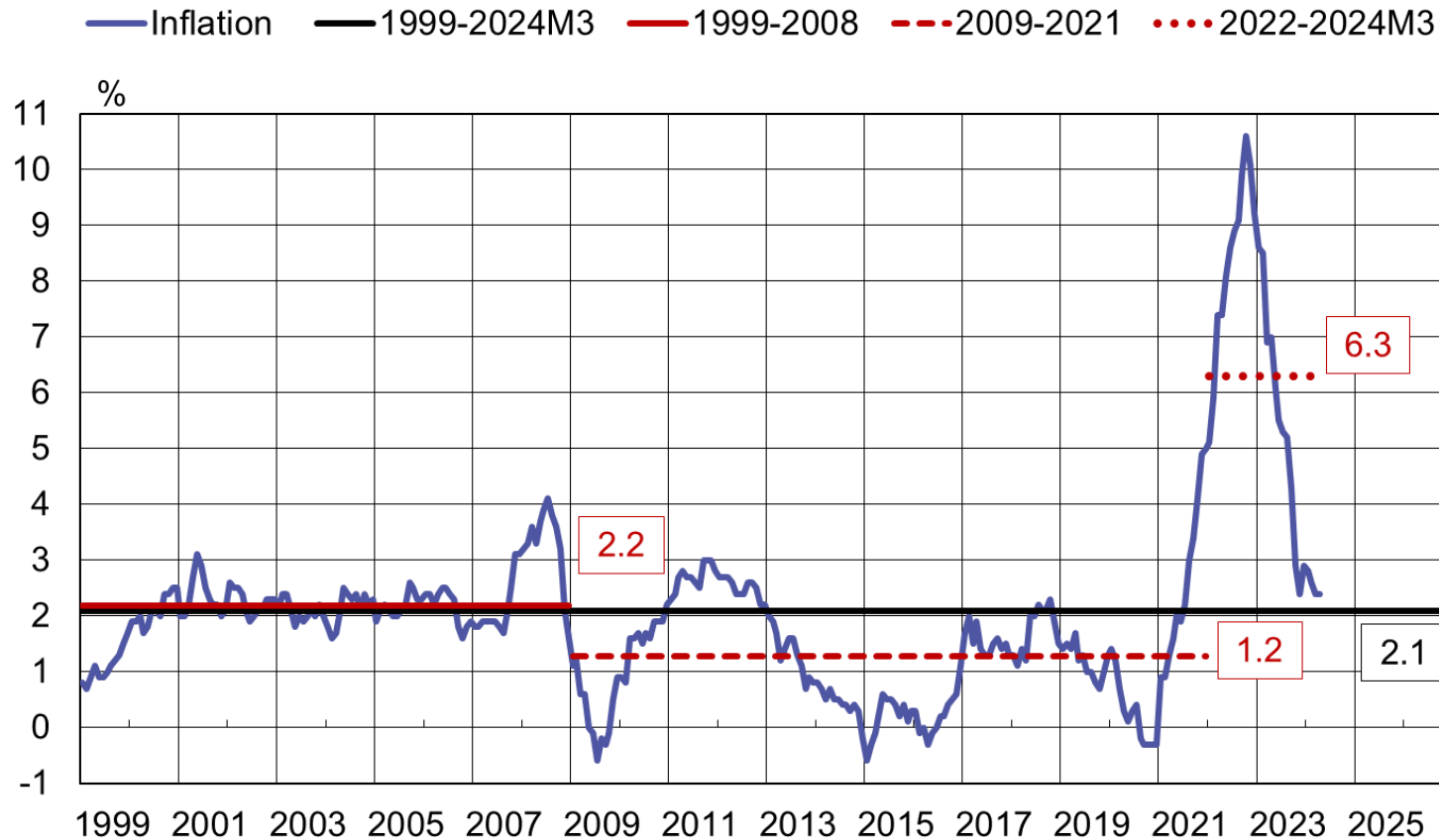
FINLANDS BANK  
EUROSYSTEMET

# Monetary Policy in Low and High Inflation Environments

Bank of Finland's 3rd International Monetary Policy Conference  
Helsinki, 26 June 2024

Governor Olli Rehn  
Bank of Finland

# Three periods of inflation in the euro era, 1999-2024



Source: Eurostat.  
32426@HICP+averages

# Monetary policy tightening has anchored euro area inflation expectations at around 2 percent



- Euro area medium-term inflation expectations are firmly anchored close to the ECB's 2% target.
- Tightening of monetary policy has anchored inflation expectations.

\* Market expectations derived from inflation swaps. SPF = ECB survey of professional forecasters.  
Sources: ECB, Bloomberg and calculations by the Bank of Finland. 32426@odotusSPF(en)

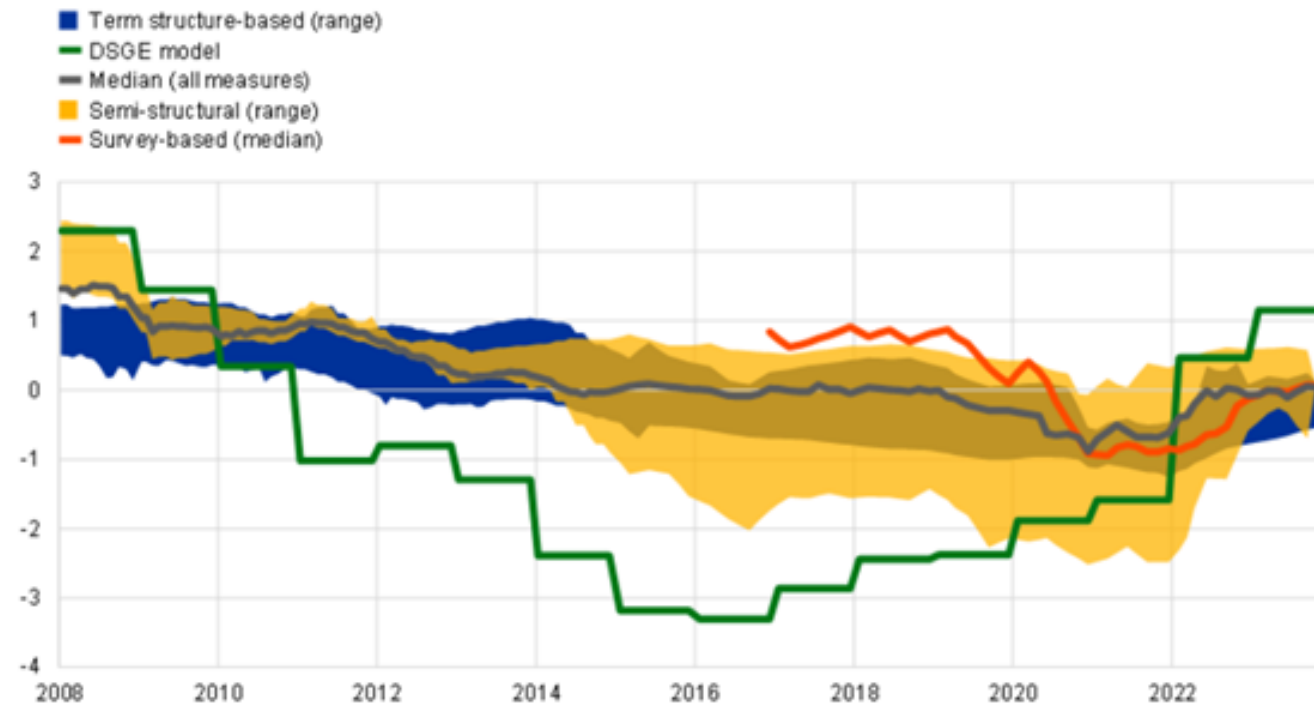
# Reflections on the ECB's next strategy review in 2025

- No need to change the symmetric inflation target of 2% over the medium term
- BUT need a better understanding of the inflation dynamics of recent years and of the secular trends affecting monetary policy going forward
  1. Analyse both **supply** and **demand** shocks
  2. Geopolitics and fragmentation: increasing supply shocks & inflation volatility?
  3. Contradictory tendencies in the long-term real natural rate of interest
  4. Labour markets in transition: rise in employment rate; role of immigration in wage moderation; slowdown in labour productivity growth – what is the impact of these on wage and inflation dynamics now and in the future?

# The natural interest rate is a necessary analytical framework but not a concrete policy-making tool

## Real natural rates of interest in the euro area

(percentages per annum)



Sources: Eurosystem estimates, ECB calculations, Federal Reserve Bank of New York and Consensus Economics.

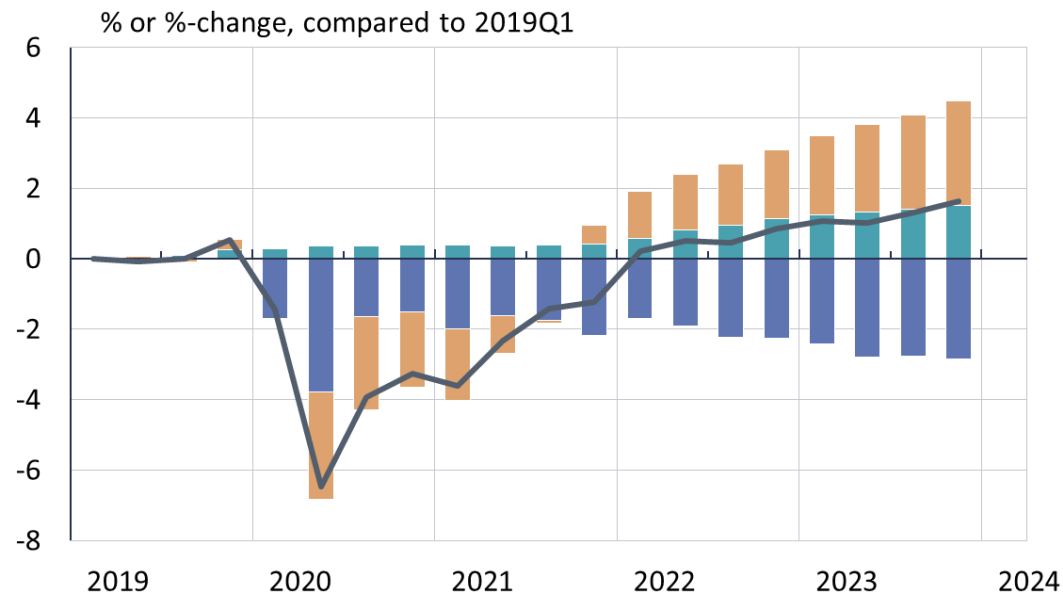
See ECB Bulletin 1/2024



# Measured in hours worked, the labour market in the euro area has not developed particularly favourably

## Decomposition of the change in hours worked

■ Hours worked per person      ■ Working-age population growth  
■ Change in the employment rate      — Hours worked



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.

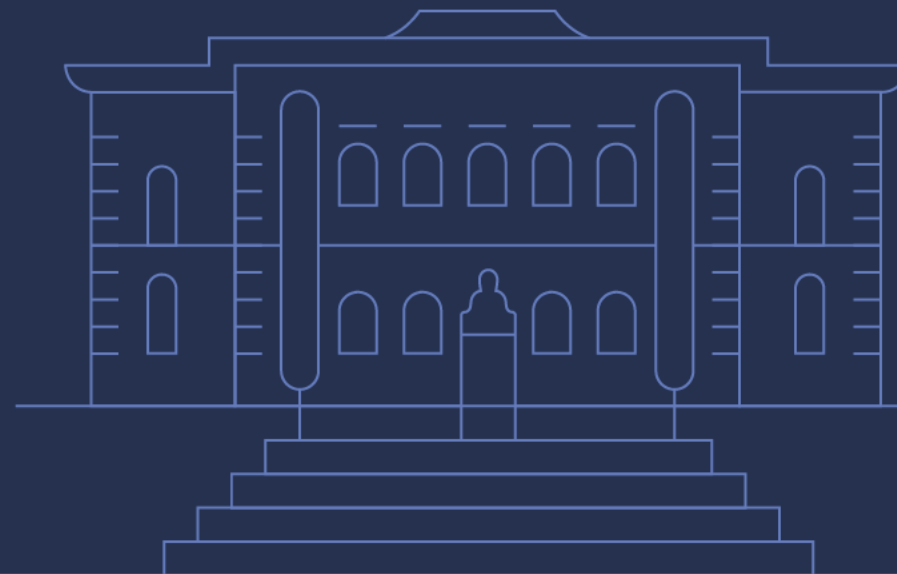
41591@Työtunnit\_tekij\_ER\_en

- Number of employed in euro area has increased faster than hours worked
- The rise in the employment rate (yellow) and increase in the working-age population (teal) have boosted hours worked in the euro area since 2022
- Population growth in the euro area has increased especially due to migration
- On the other hand, the decrease in the average number of hours worked (blue) has been pulling down the total number



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based on research.



Thank you!