

SUOMEN PANKKI
EUROJÄRJESTELMÄ



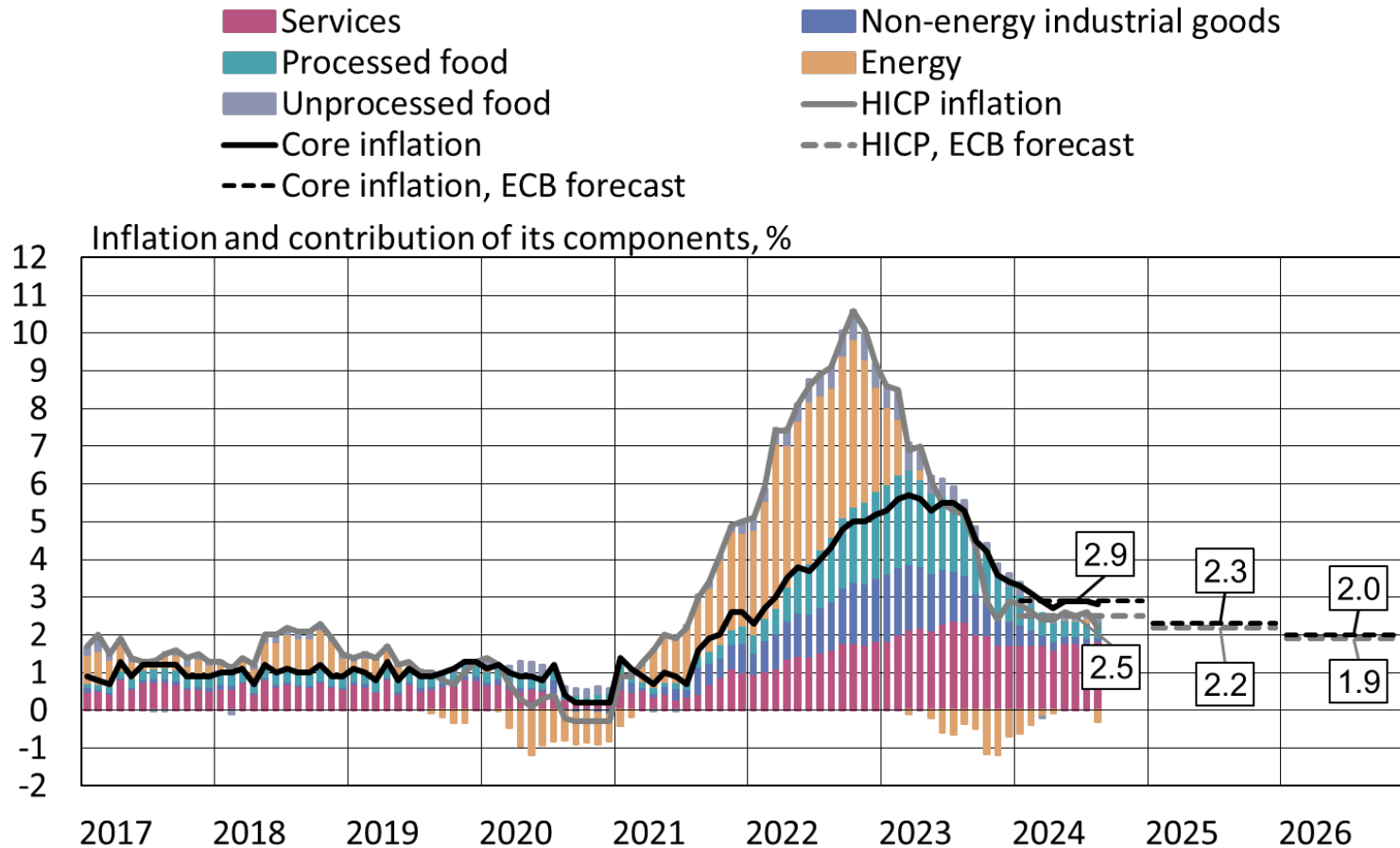
FINLANDS BANK
EUROSYSTEMET

This Time Is Different – or Back to Basics? Reflections on Monetary Policy Normalisation

Bank of Finland and CEPR Joint Conference
Helsinki, 13 September 2024

Governor Olli Rehn
Bank of Finland

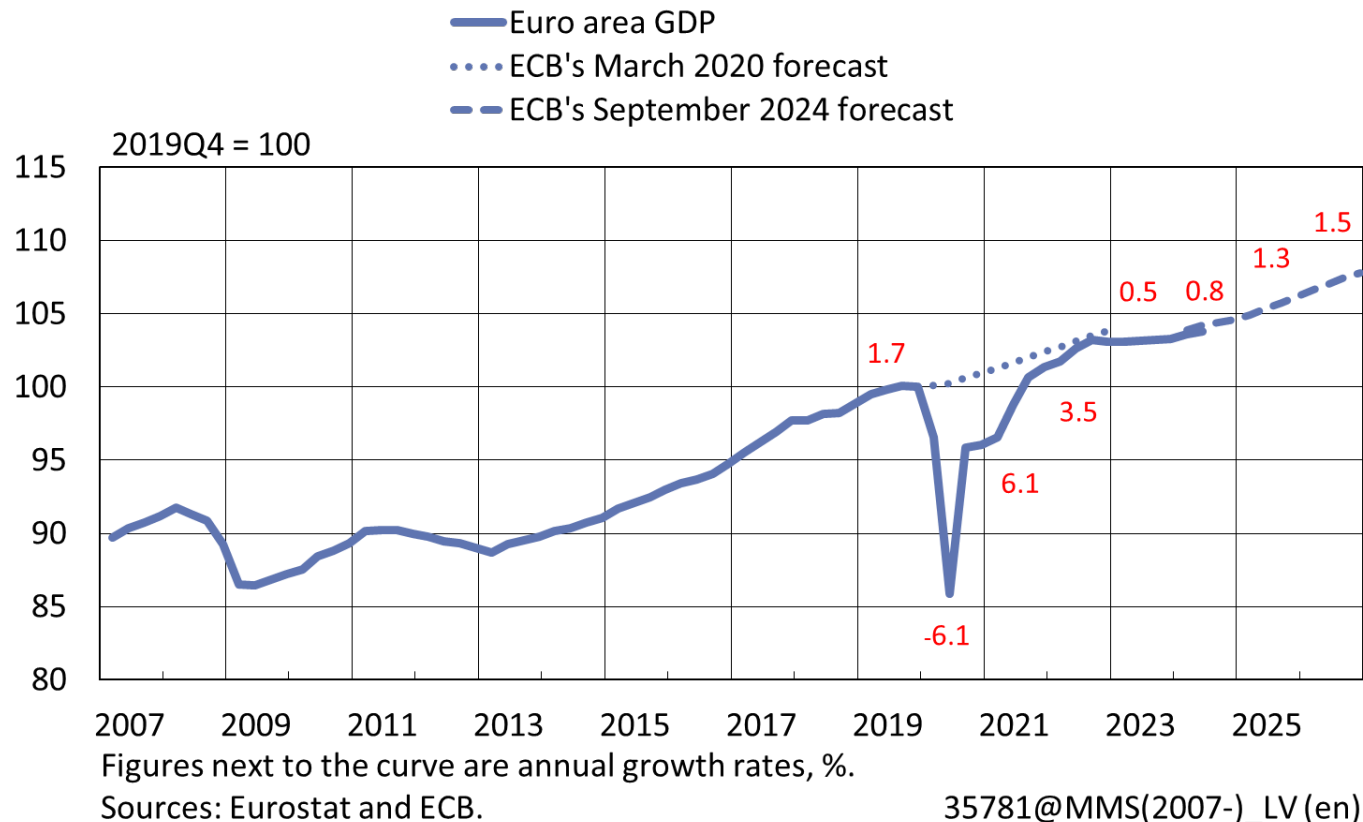
Disinflation in the euro area is on the right track – but still a bumpy road ahead for stabilising inflation at the 2% target



Sources: Eurostat and ECB.

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Euro area GDP growth is projected to gradually pick up

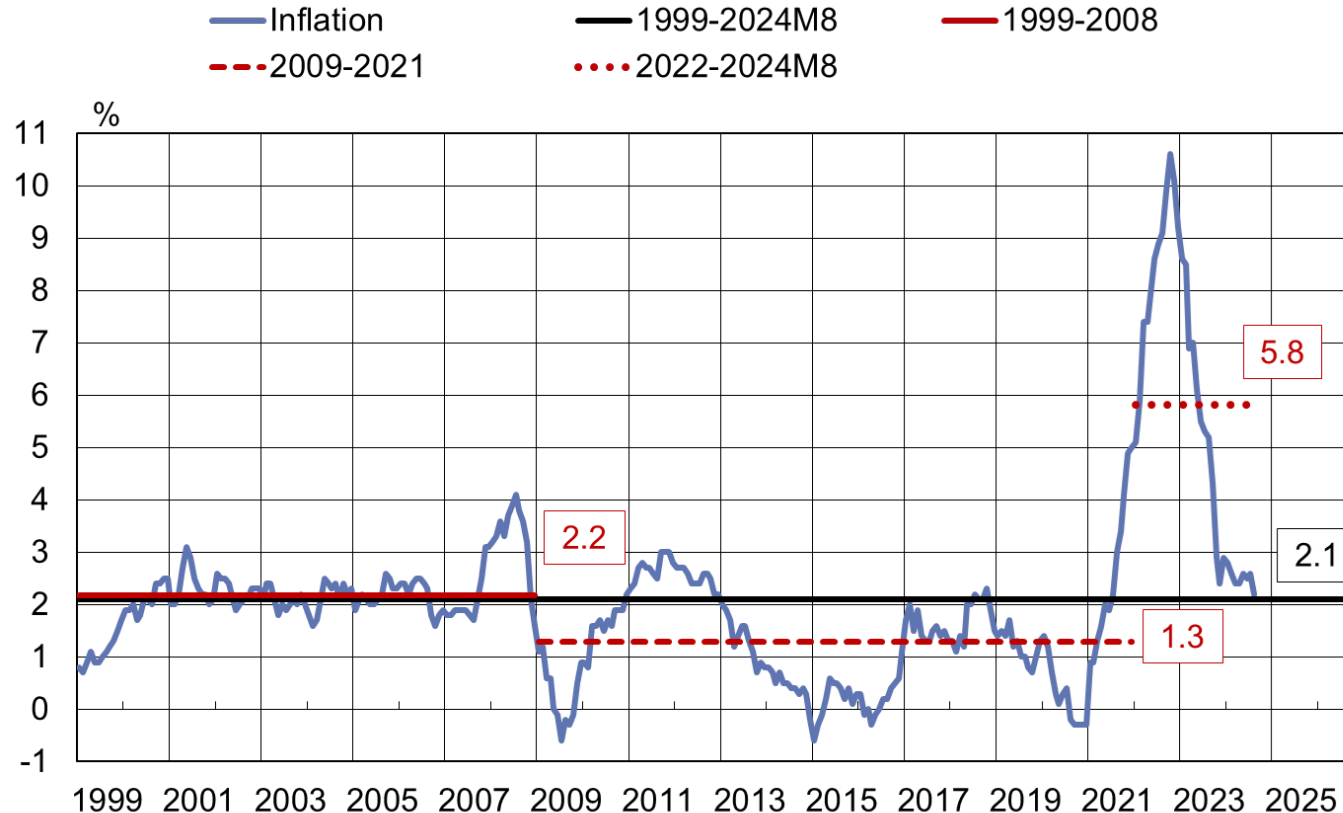


- Economic activity is still subdued.
- The ECB's September forecast shows growth accelerating to 1.3% in 2025 and to 1.5% in 2026.
- Weakness in euro area growth is partly structural.
- The Draghi report on Europe's industrial competitiveness provides a diagnosis and solutions.

The ECB's Governing Council lowered key interest rates at its September meeting

1. The ECB's Governing Council decided yesterday to lower the main policy rate by 25 basis points. The deposit facility rate now stands at 3.5%.
2. The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. We will continue to follow a data-dependent and meeting-by-meeting approach.
3. Our interest rate decisions will be based on the assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.
4. Rates on the main refinancing operation (MRO) and the marginal lending facility (MLF) were lowered by 60 basis points to 3.65% and 3.90%, respectively, as communicated in March 2024. The decision ensures that changes in policy rates transmit effectively to market rates also in the future.

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



Source: Eurostat.
32426@HICP+averages

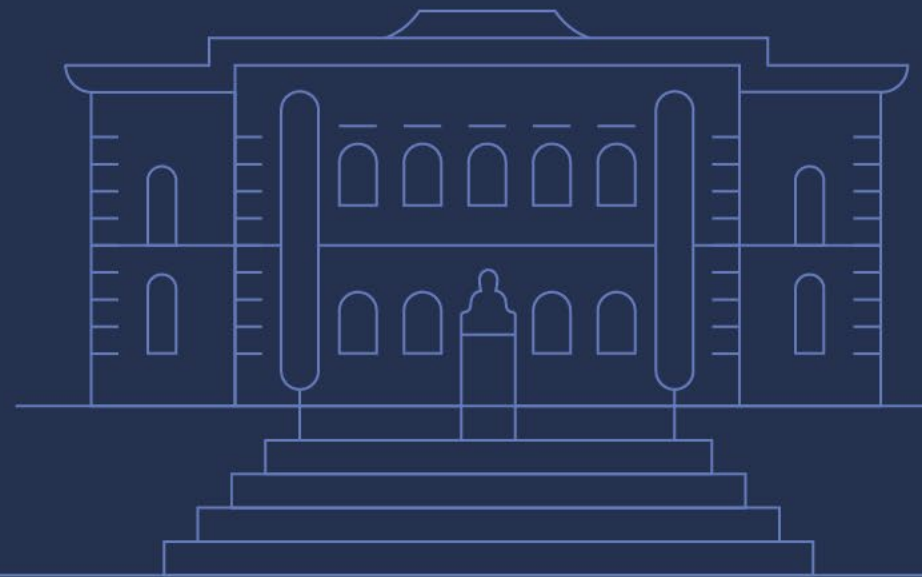
Reflections on the ECB's next strategy review in 2025

- 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, for instance:
 1. Geopolitics and fragmentation: increasing supply shocks & inflation volatility?
Analyse both **supply** and **demand** shocks
 2. Contradictory tendencies in the long-term real natural rate of interest
 3. Labour markets in transition: rise in the employment rate and immigration; a secular decline in labour productivity growth



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Securing stability,
based on research.



Thank you!