



Economic effects of the corona crisis and measures by the central banks

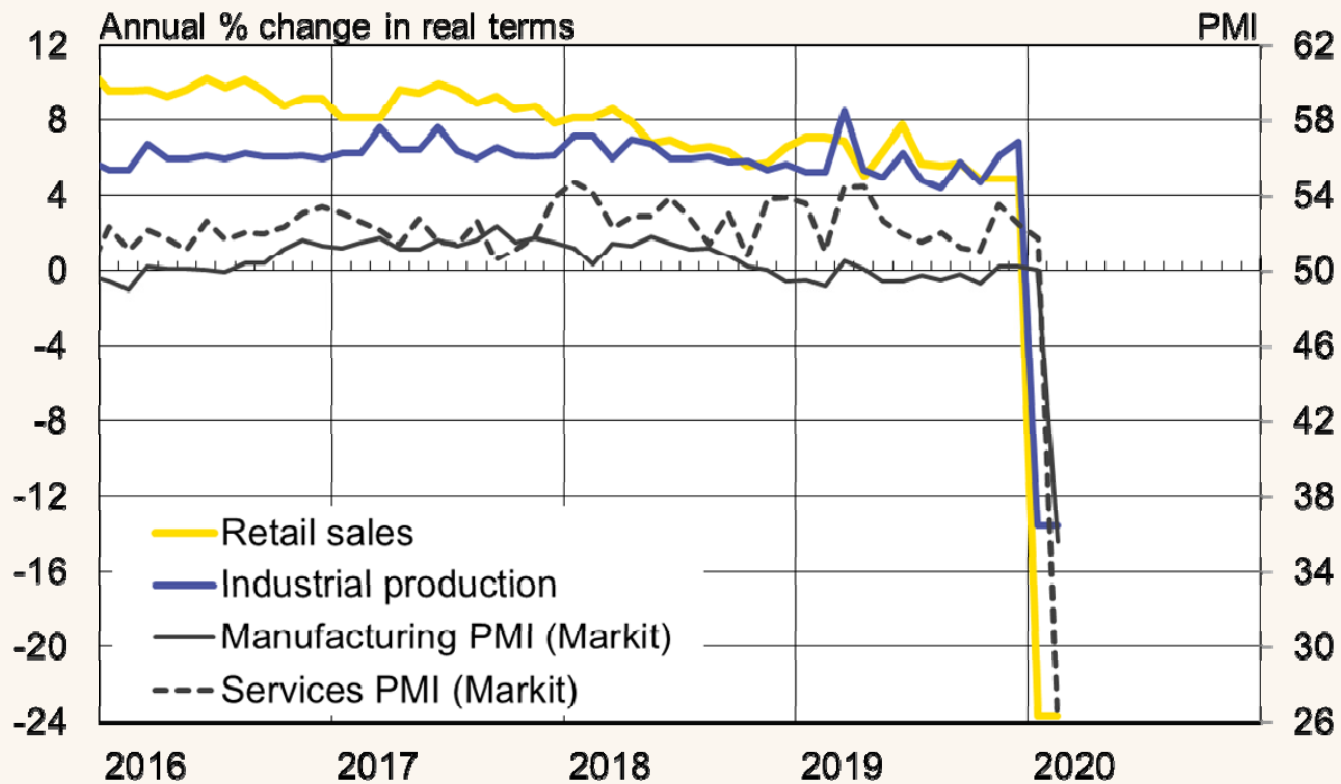
Helsinki, 20 March 2020

Olli Rehn
Suomen Pankki

Health first – damage to the economy must be mitigated

- Protecting the health of the public must take precedence during a pandemic.
- But contingency measures to contain the virus have brought the global economy to an abrupt halt.
- Public authorities, including the central bank, will inevitably play a key role in mitigating the economic damage.
- We must secure the financing of businesses and liquidity in the financial system.
- Comprehensive recovery of economic output and confidence will only begin once people trust that the pandemic is under control.

Chinese economy contracted sharply in January and February



Sources: Macrobond and CEIC.

Finnish economy also entering recession

- The effects of the pandemic are not yet observable in statistical data on Finnish economic output, but it is clear that these effects will materialise in the coming months.
- On Wednesday, the Bank of Finland released alternative scenarios assessing the impact of the coronavirus on the Finnish economy.
- In these scenarios real GDP contracts by 1.5–4% in 2020.

ECB monetary policy measures on 12 March will support lending conditions for households and firms

- 1) Additional longer-term refinancing operations (LTROs)
 - Immediate liquidity support to the euro area financial system
- 2) Targeted longer-term refinancing operations, series III (TLTRO III)
 - Considerably more favourable terms for all outstanding operations from June 2020 to June 2021
 - Ensures smooth bank lending to households and small and medium-sized enterprises
- 3) Net asset purchases (APP)
 - Additional net asset purchases of EUR 120 billion until the end of the year, to ensure a strong contribution from the private sector purchase programmes
 - Secures readiness to prevent market disruptions under all asset purchase programmes
 - Supports the availability of market-based funding for businesses

ECB Banking Supervision measures in response to the corona virus

- The ECB announced on 12 March measures that provide its directly supervised entities flexibility in the fulfilment of certain additional capital and liquidity requirements, incl. fulfilment of the Pillar 2 additional capital requirement.
 - Applies also to Finnish banks directly supervised by the ECB
- In Finland, the Board of the Financial Supervisory Authority (FIN-FSA) decided on 17 March to decrease the capital requirements that are subject to national decision-making by one percentage point, applicable to all banks.

The ECB's monetary policy decisions 18 March 2020

- Launch of a new asset purchase programme, the Pandemic Emergency Purchase Programme (PEPP)
 - Flexible purchases of securities totalling EUR 750 billion, conducted until the end of 2020
 - Includes all the asset categories eligible under the existing asset purchase programme (APP)
 - The ECB is fully prepared to increase the size of the programme and adjust its composition
 - Securities issued by the Greek government also eligible for purchase
- Expansion of the range of eligible assets under the corporate sector purchase programme (CSPP)
- Easing of collateral standards in refinancing operations
- The Governing Council will do everything necessary within its mandate to support all euro area citizens through this extremely challenging time.

The Bank of Finland's new measures to alleviate the impacts of the corona virus pandemic: purchases of commercial paper

- The purpose is to increase the supply of funding to businesses and preserve jobs as part of national and euro area crisis measures.
- The Bank of Finland launched on 17 March purchases of commercial paper. The size of the programme is initially EUR 500 million.
- The Bank of Finland Board decided on 18 March to increase the size of the programme to EUR 1,000 million, i.e. EUR 1 billion.
- The purchases will also indirectly ease the funding conditions for small companies, as banks can free up credit lines for other customers.

Summary

- Finnish economy to enter recession due to coronavirus pandemic
- Securing financing of businesses and households will be pivotal
- This is the aim of the ECB's refinancing operations and purchase programme
- Government measures to support operating conditions for companies
- BoF relaunches purchases on corporate commercial paper market - programme size a maximum EUR 1 billion
- FIN-FSA lowered capital requirements to ensure provision of credit
- Cooperation between banks and pension companies important
- European fiscal stimulus programme also in Finland's interest



Thank you!

suomenpankki.fi