# Olli Rehn: Counter-cyclical burden-sharing of fiscal and monetary policy

Opening remarks by Mr Olli Rehn, Governor of the Bank of Finland, at the Bank of Finland Seminar on the 2018 Annual Report of the European Fiscal Board, Helsinki, 18 March 2019.

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Professor Thygesen, Dr Szczurek,

Ladies and Gentlemen,

Let me welcome you to this Bank of Finland Seminar on euro area fiscal policy, more specifically on the Annual Report 2018 of the European Fiscal Board. We are honoured and glad to have Professor Thygesen and Dr Szczurek present the report to us today.

Let me open this seminar with brief remarks on the interaction between fiscal and monetary policy, which also explains the Bank of Finland's strong interest on the issue.

GDP growth in the euro area turned out to be unexpectedly sluggish in the fourth quarter of 2018, and recent indicators point to substantially weaker than expected activity also in 2019. A combination of global uncertainties and adverse domestic factors in some euro area countries are likely to continue to weigh on euro area activity in the short term.

On the back of the weakened economic outlook, the ECB Governing Council recently took a number of important decisions in pursuit of its price stability objective: first, a commitment to keep the key policy interest rates unchanged for an extended period of time; second, a commitment to continue reinvesting maturing securities under the asset purchase programme for an extended period of time; and third, launching a new series of targeted longer-term refinancing operations (TLTRO-III), starting in September 2019.

In the press conference on 7 March, President Draghi underlined that to reap the full benefits from the ECB's monetary policy measures, other policy areas must contribute more decisively to raise the growth potential and reduce vulnerabilities. For the longer term, implementation of structural reforms is key to boost euro area productivity and growth potential. Regarding fiscal policies, the mildly expansionary euro area fiscal stance today and the operation of automatic stabilisers are providing support to economic activity.

However, the prolonged low interest rate environment, as well as the available alternatives to the interest rate as a monetary policy instrument, pose their particular challenges for monetary policy design and transmission. Therefore, it may be asked whether a more even balance between monetary and fiscal policy stances would be desirable in order to sustain the growth momentum in the current conjuncture.

This point has been brought up, among others, by the IMF in its advice on the optimal policy mix for the euro area. While countries with elevated public debt levels should focus on consistent consolidation of public finances, those with available fiscal space should use it to increase growth-enhancing public investment.

In its global policy agenda, the IMF has underlined the added value of coordinated action, helping to address challenges related to constrained policy space at national level. The same point was recently raised by Reza Moghadam, former Director of the IMF's European Department, arguing for a more widespread coordinated fiscal easing in the euro area in order to prevent a slowdown from slipping into a recession.

While several caveats must be taken into account, any such fiscal easing should, if the slowdown is judged persistent, be undertaken within the limits of debt sustainability and be differentiated according to fiscal space available. In this way, one would enable a more balanced macroeconomic policy mix. That's why there are obvious merits in the idea. As the saying goes, monetary policy should indeed not be the only game in town.

Without further ado, or say, let me again welcome Prof. Thygesen and Dr. Szczurek, and now give the floor to them!