

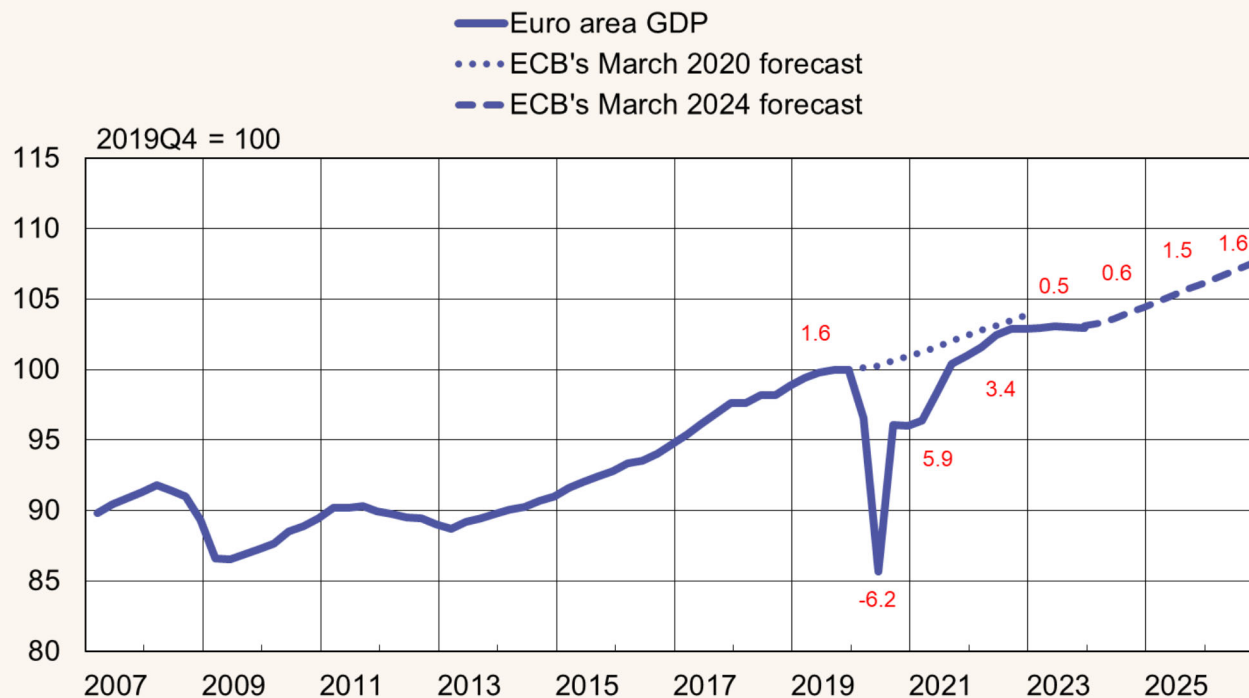


Dialling back monetary restraint

Citi Macro Forum
Washington D.C., 18 April 2024

Governor Olli Rehn
Bank of Finland

Euro area GDP growth to gradually strengthen towards 2025-2026 – mains risks stem from geopolitics



Figures next to the curve are annual growth rates, %.

Sources: Eurostat and ECB.

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



Source: ECB.
32426@HICP+averages

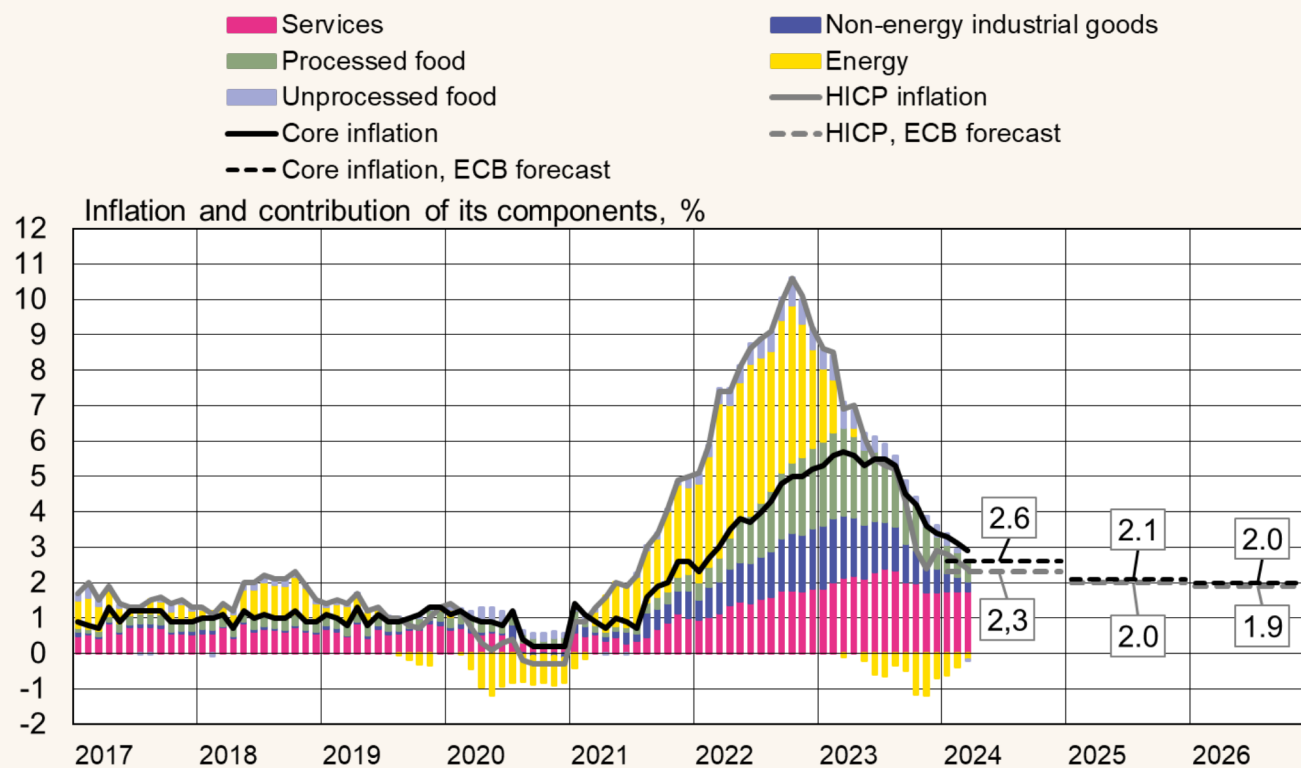
- ECB's inflation target since 2021: symmetric target of 2% over the medium term.
- During the first decade (1999–2008): inflation around 2%.
- Cf. J.-C. Trichet: "Inflation 1.97%!"
- From the financial crisis to the pandemic (2009–2021): inflation significantly below target: 1.2%.
- From summer 2021: high inflation due to supply shocks & crises.
- Average in the euro era: 2.1%.

Monetary policy strategy review 2020–2021: ECB introduces a symmetric inflation target

- Previous inflation target of “below but close to 2%” was seen as a ceiling, an upper limit
- **The ECB’s inflation target now: symmetric target of 2% over the medium term**
- Negative and positive deviations from the target equally undesirable
- According to the current strategy, inflation may temporarily exceed 2%
- Inflation has recently been too high with respect to both the old and the new target



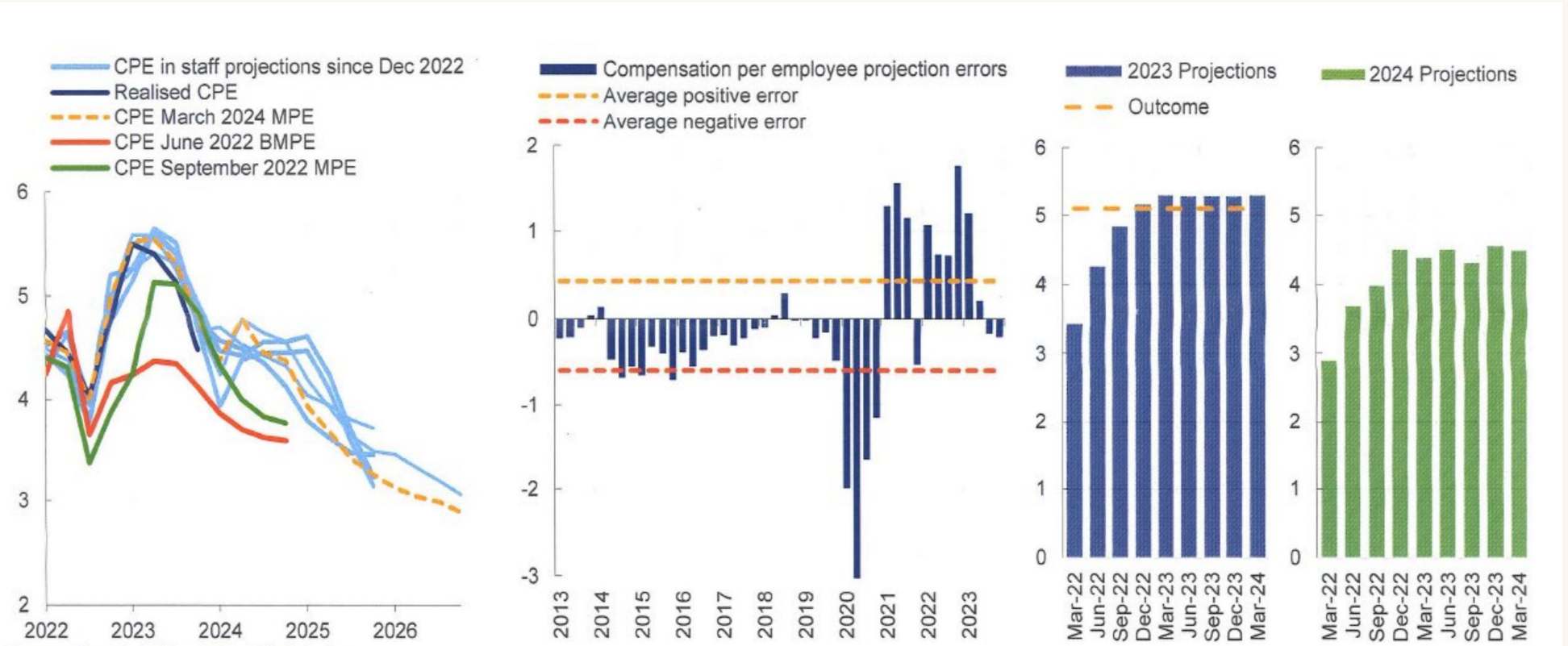
Euro area inflation has continued to fall, supported by restrictive monetary policy



Sources: Eurostat and ECB.

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Euro area wage growth is moderating



Sources: Eurostat, ECB and ECB staff calculations.
 Notes: The middle chart shows 4 quarter ahead projection errors (for example, for Q4 2023, projections prepared in the March 2023 MPE). Y-axis is truncated, the projection error for Q2 2020 is -7.2 percentage points.

Monetary policy tightening has re-anchored euro area inflation expectations at 2%



- 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)

If inflation continues to fall, the ECB can start easing monetary policy as summer approaches

- The ECB Governing Council decided on 11 April 2024 to keep the three key ECB interest rates unchanged. They are at a level that is helping considerably to push down inflation.
- If we are confident in June that inflation is converging to its target in a sustained manner, it would be appropriate to ease monetary policy and cut interest rates.
- Based on an assessment of:
 - the inflation outlook,
 - the dynamics of underlying inflation, and
 - the strength of monetary policy transmission.
- In any event, the ECB Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining its monetary policy stance.
- The ECB Governing Council is not pre-committing to a particular rate path.