

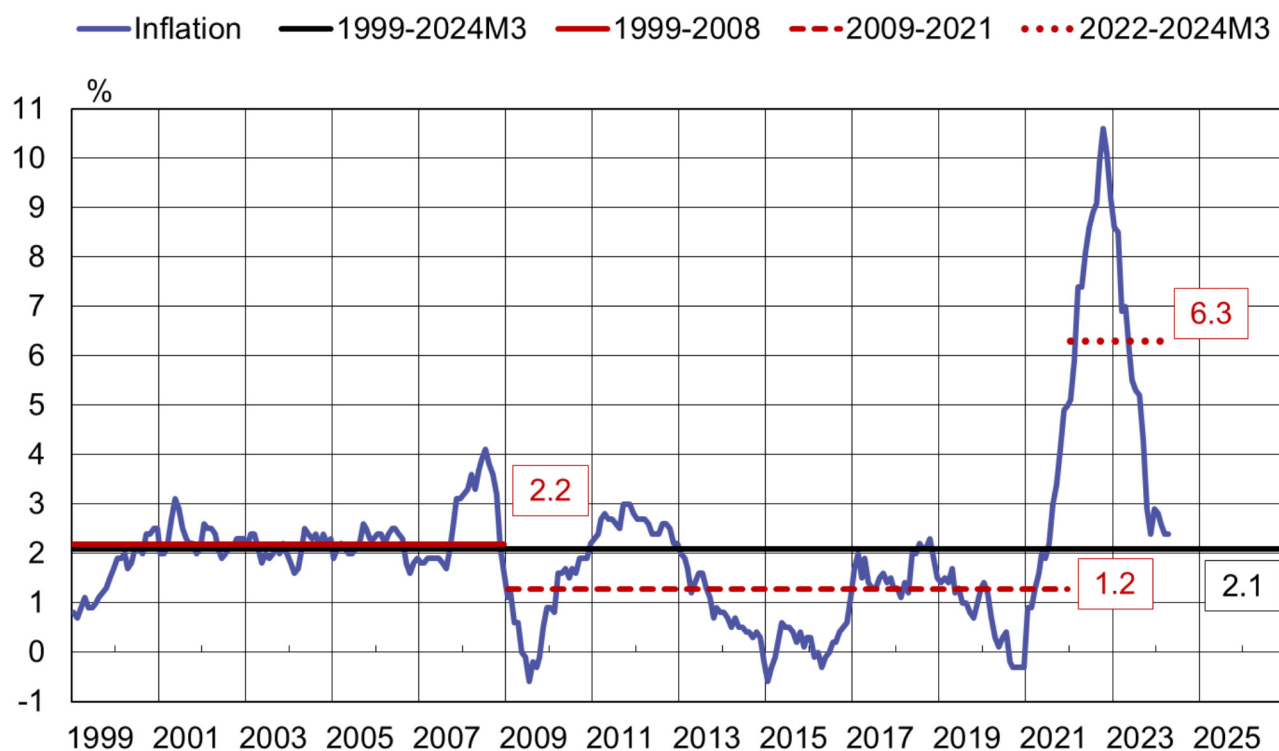


Monetary Policy in Low and High Inflation Environments

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



* 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)

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

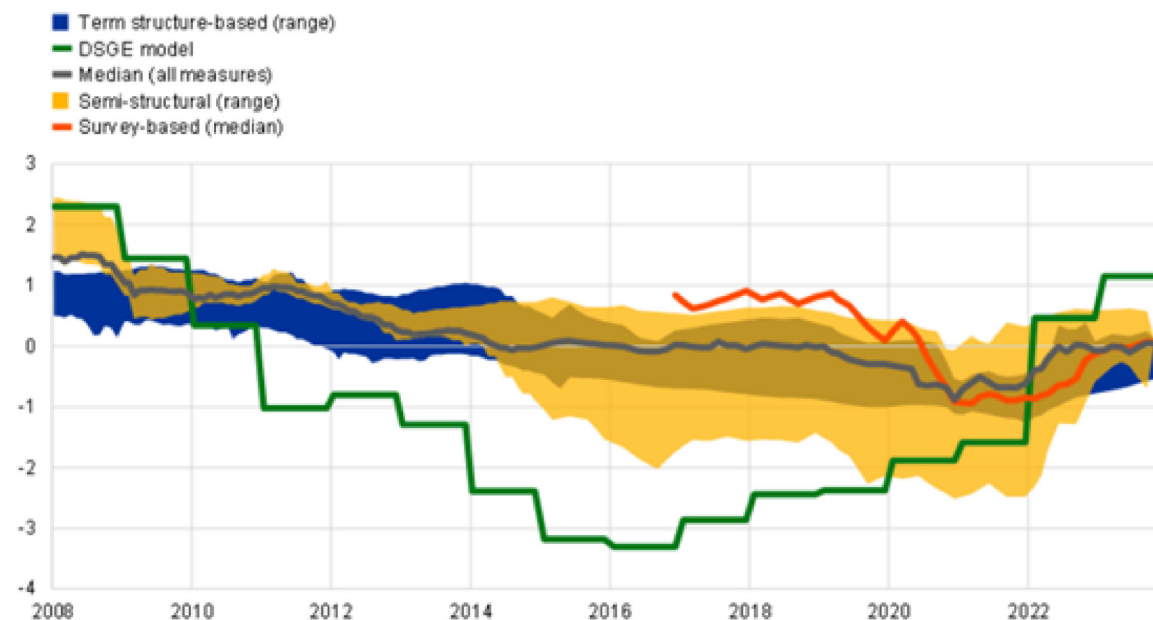
Reflections on the ECB's next strategy review in 2025

- 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)

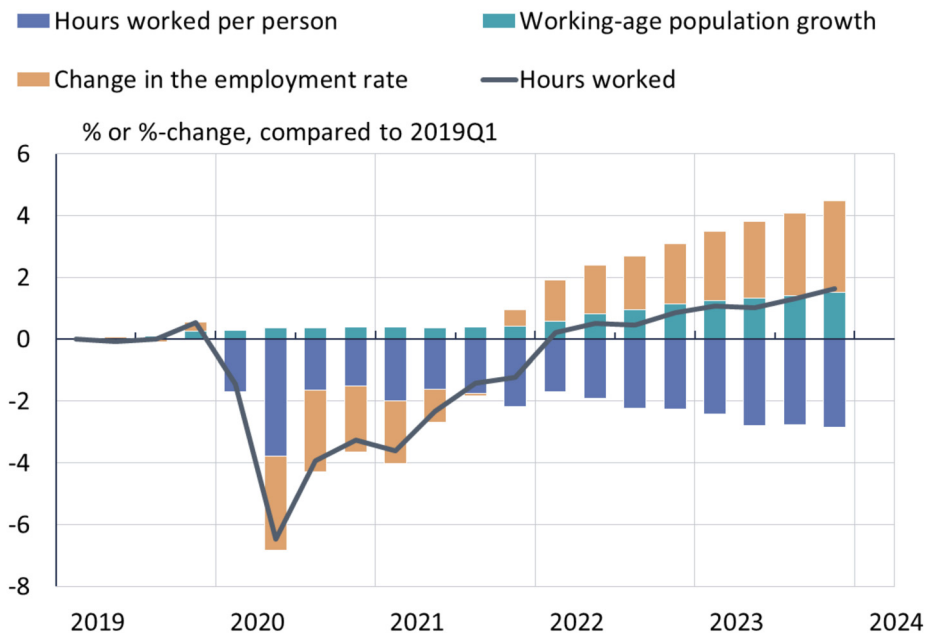


Sources: Eurosystem estimates, ECB calculations, Federal Reserve Bank of New York and Consensus Economics.

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



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.

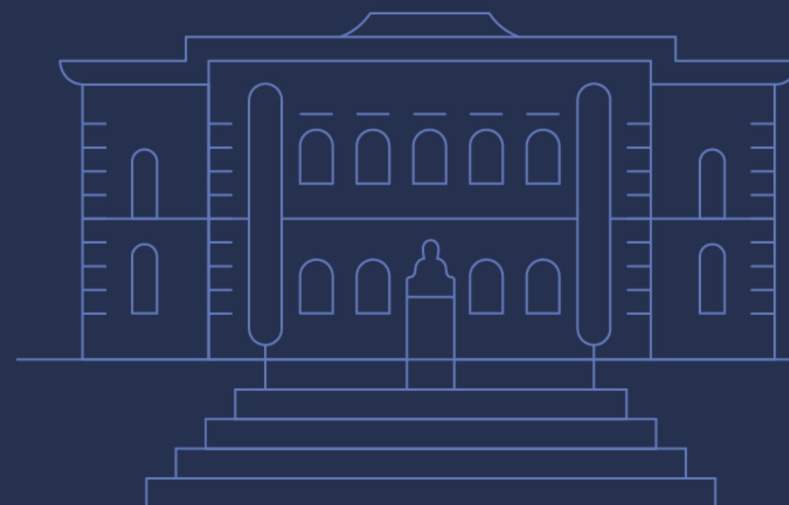
41591@Työtunnit_tekij_ER_en

- 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



”

Securing stability,
based on research.



Thank you!