Editorial

Editorial: ECB to continue highly accommodative monetary policy

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Economic growth in the euro area is becoming more broadly based and there has already been four years of unbroken growth in GDP. The monetary policy of the ECB has been highly accommodative, lowering funding costs for both households and non-financial corporations across the euro area. Bank lending rates are at a historical low, which has strengthened credit growth. With lower unemployment and higher household incomes, confidence in future economic developments in the euro area is high. The accommodative monetary policy has buffered euro area growth against negative impacts from the growing global uncertainty, supported balance sheet restructuring in the financial sector and contributed to a reduction in leverage ratios.



Monetary policy transmission is also supporting domestic demand. Improvements in corporate profitability are contributing to a recovery in investment. With signs of somewhat stronger global economic growth and a pick-up in global trade, the positive economic growth is expected to

continue. Global economic growth is expected to average just over 3% in the coming years.

Euro area inflation has increased to close to 2% mainly on account of oil prices, and at the same time risks of deflation have been waning. Nevertheless, there is still unutilized capacity in the economy, and wage growth remains moderate. With inflation expectations remaining low, there is little sign of higher inflation in the medium term. A very substantial degree of monetary accommodation is still needed in the euro area for underlying inflationary pressures to build up and support headline inflation in the medium term.

Risks to the outlook for both growth and inflation are tilted on the downside, and in particular uncertainty relating to global economic developments has increased. It is therefore crucial to fully implement the monetary policy measures decided earlier.

The Governing Council of the ECB consequently confirmed in March that it intends to continue non-standard policy measures until the end of December 2017, or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation target.

It should also be noted that with continuing economic growth in the euro area, inflation could increase markedly. Nevertheless, only a temporary increase in inflation would not be sufficient from the point of view of price stability. There needs to be a sustained adjustment in the path of inflation consistent with the price stability objective; a mere passing increase in prices is not enough. Inflation must also be self-sustaining so that price developments remain in line with the objective even after the current highly accommodative monetary policy stance is no longer in place. The price stability objective is defined for inflation in the euro area as a whole. Sizable country differences in inflation can be consistent with the objective and could help reduce differences in competitiveness in a situation where economies in the euro area are recovering from a protracted period of crisis, each at its own pace.

The euro area yield curve has recently steepened, with short-term interest rates falling and long-term rates rising. It is key for monetary policy to ensure that economic growth is not hampered by a strong and premature rise in long-term interest rates before growth has had a chance to become sufficiently self-sustaining.

The outlook for the Finnish economy has been improving, but economic growth in Finland is still forecast to remain below the euro area average. Like other euro area countries, Finland is benefiting from the accommodative monetary policy stance. Stronger economic growth in the euro area and globally means that Finnish exports will also pick up. Finnish economic growth remains moderate compared with pre-crisis levels, but the composition of growth is broadening. Private consumption and investment continue to support economic growth, while the importance of net exports is set to increase.

Weak cost-competitiveness was one element behind the exceptionally large contraction in Finnish exports since 2008. In the past few years, however, the weakening trend in cost-competitiveness has come to a halt as the rise in Finnish income levels has decelerated and the external value of the euro has depreciated. The Competitiveness Pact that entered into force at the beginning of 2017 is forecast to bring about tangible improvements in cost-competitiveness. For exports and employment growth, it is key for unit labour cost developments to remain below those of trading partners in the coming years, even after the expiration of the Competitiveness Pact.

For stronger economic growth in the euro area as in Finland, it is crucial for international trade to remain free and undisturbed. The benefits of globalisation have not been equally distributed, and the adjustment costs for some industries and countries have been significant and protracted. There has been a steep increase in income differences in advanced economies over the past decades, and many have lost their jobs to structural change. More attention needs to be paid now to reducing the risk of increased marginalisation and lack of opportunities. Education plays a key role here. Education also enhances mobility, and hence employment. Taxation, income transfers and public services are, similarly, very relevant to high employment. An efficient financial system and development of a competition-friendly regulatory environment can support potential growth and employment as well as the resilience of the economy in changing circumstances.

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