

SUOMEN PANKKI
EUROJÄRJESTELMÄ



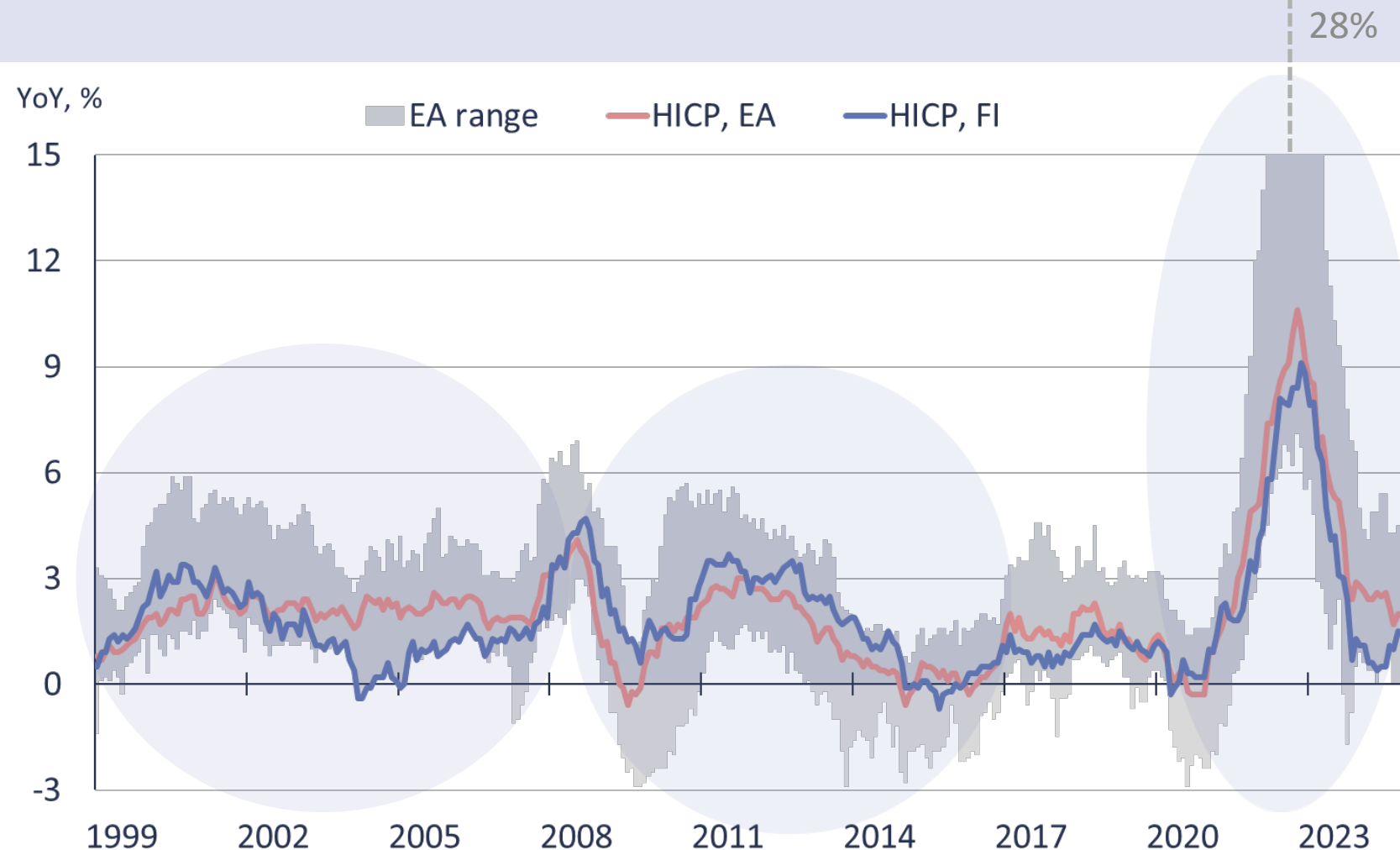
FINLANDS BANK
EUROSYSTEMET

Drivers of Inflation in a Small Open Economy within a Monetary Union: Experiences from Finland

The SNB And Its Watchers, 22 November 2024, University of Zurich

Board Member Tuomas Vähimäki
Bank of Finland

Inflation Dynamics: Finland vs. Euro Area

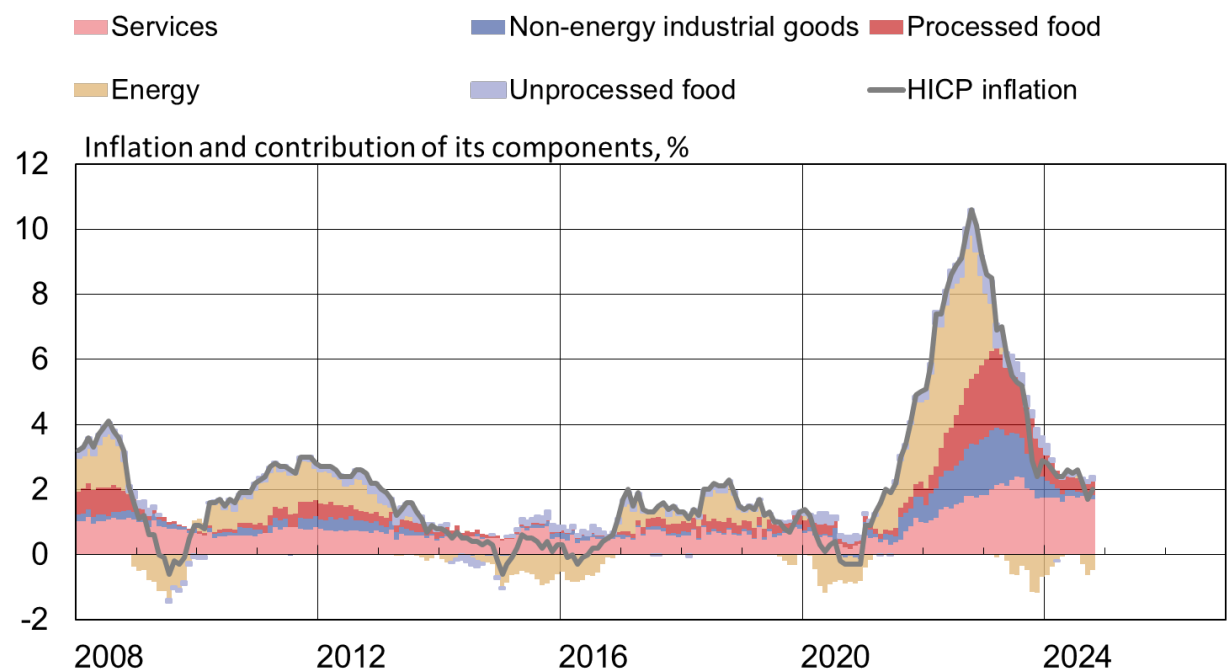


Source: Eurostat.

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Inflation Drivers in the Euro Area and Finland

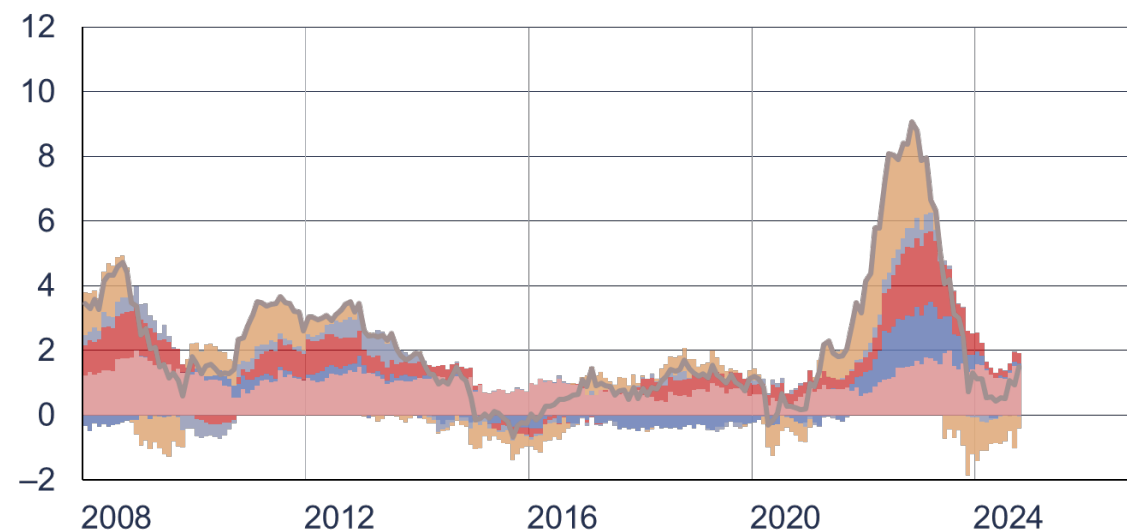
Inflation contributions in the euro area



Sources: Eurostat and ECB.

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Inflation contributions in Finland



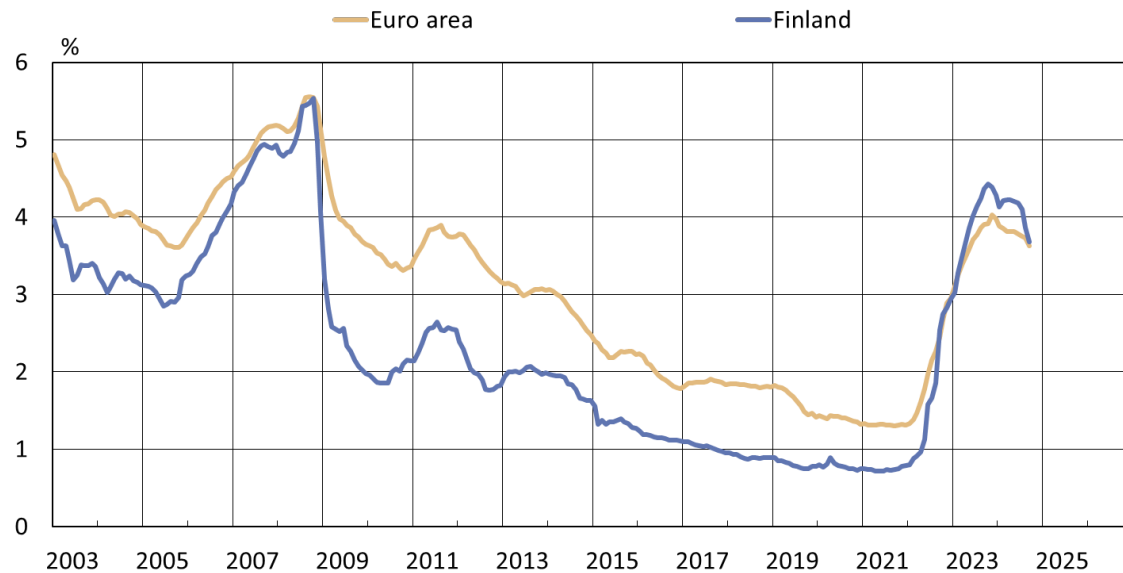
HICP = Harmonised index of consumer prices.

Source: Statistics Finland.

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Mortgage Rates in Finland vs. Euro Area

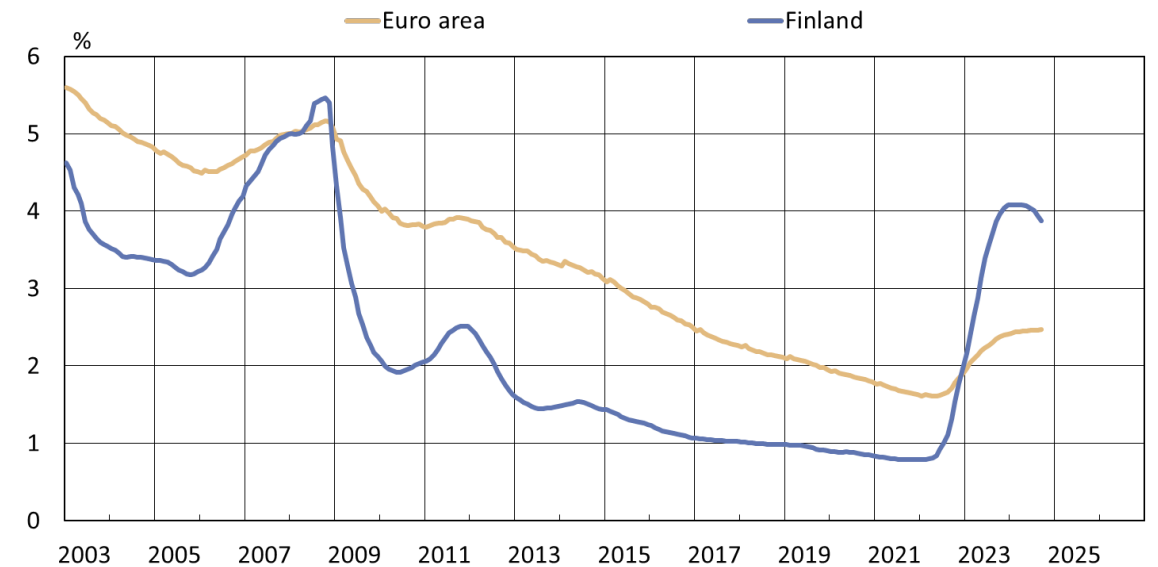
Interest rates on new housing loans



Source: European Central Bank.

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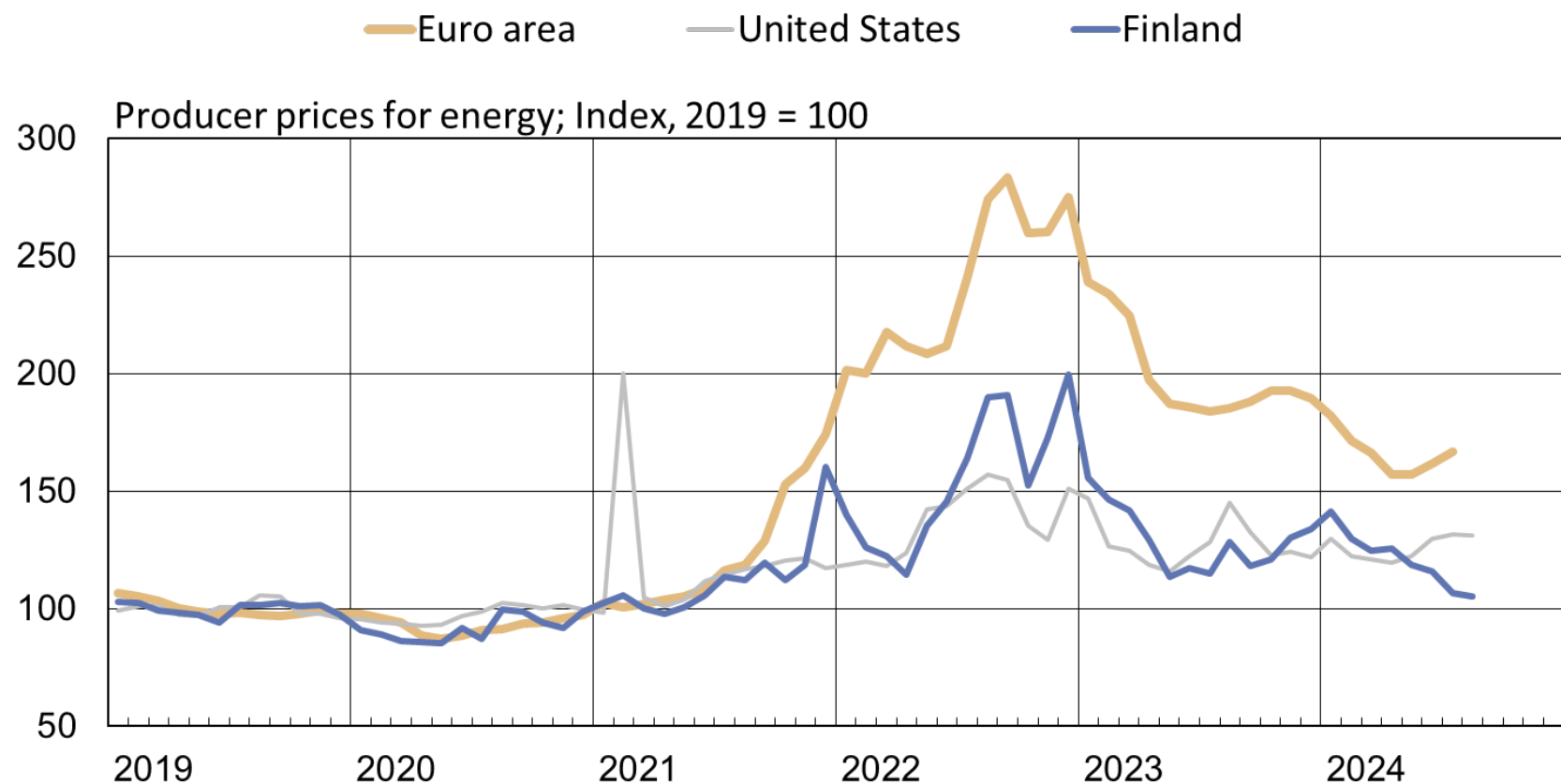
Average interest rates on on the housing loan stock



Source: European Central Bank.

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Energy Prices in the Euro Area and Finland



Sources: Eurostat and BLS.

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Wage Increases Broadly in Line with the Euro Area

Negotiated wage growth in the Euro area and Finland



Source: European Central Bank.

Key Focus Areas for Open Economies in a Monetary Union

- *Economic Synchronization*
 - Well-functioning economic structures, synchronized business cycles, and trade linkages within the euro area.
- *Exchange Rate Stability*
 - Reduction of FX fluctuations added stability to Finnish economy, despite the loss of FX rate as an adjustment tool.
- *Role of other Policy Areas (Structural and Fiscal):*
 - Sound and countercyclical fiscal policies needed to address asymmetric shocks given the single monetary policy.
 - Flexible economic structures and wage-setting procedures to address cost competitiveness and external shocks.
- *Resilient and Sound Banking Sector*
 - Well-functioning banking sector facilitates financial stability and support economic growth.
 - Country specific macroprudential policy tools to complement single monetary policy.

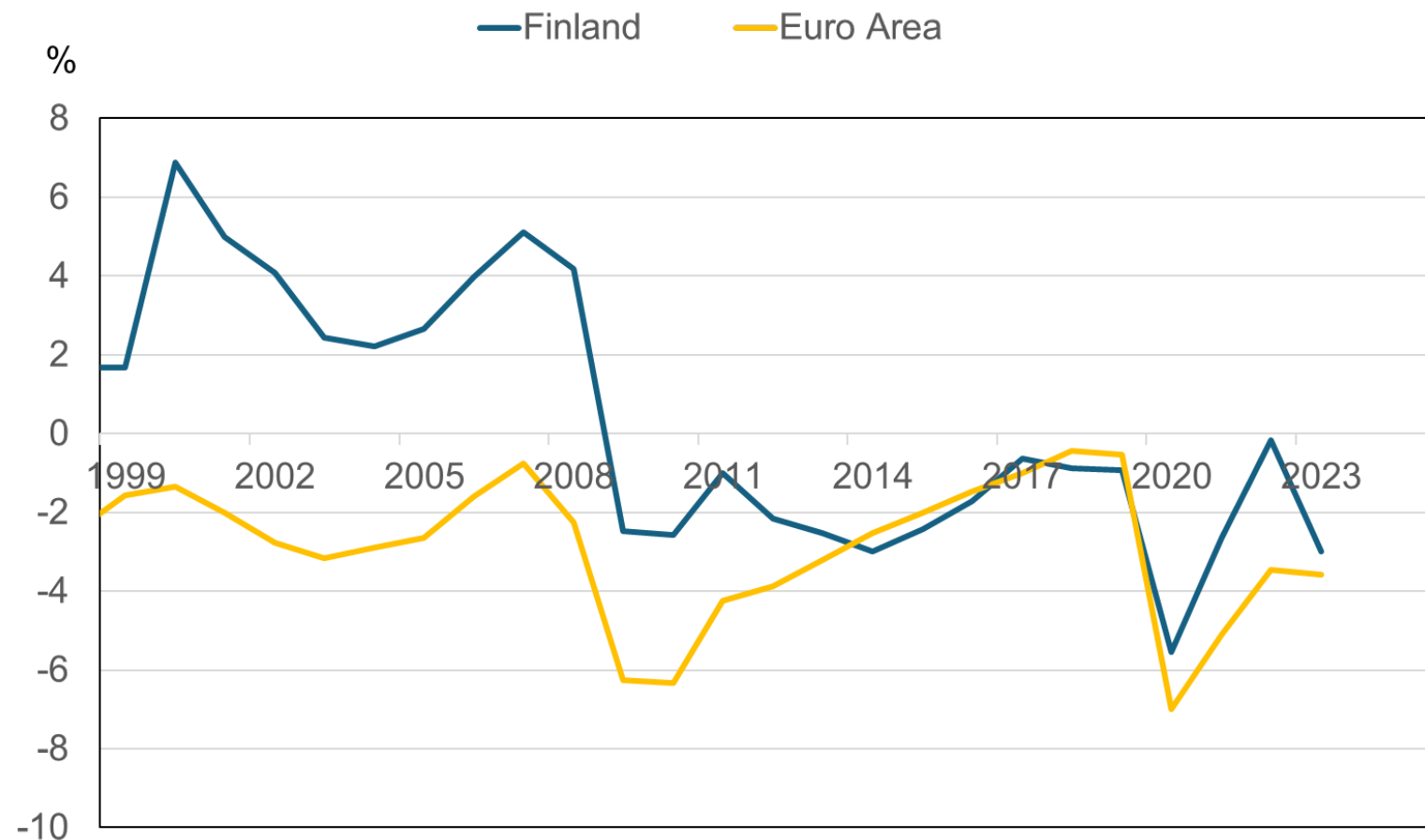
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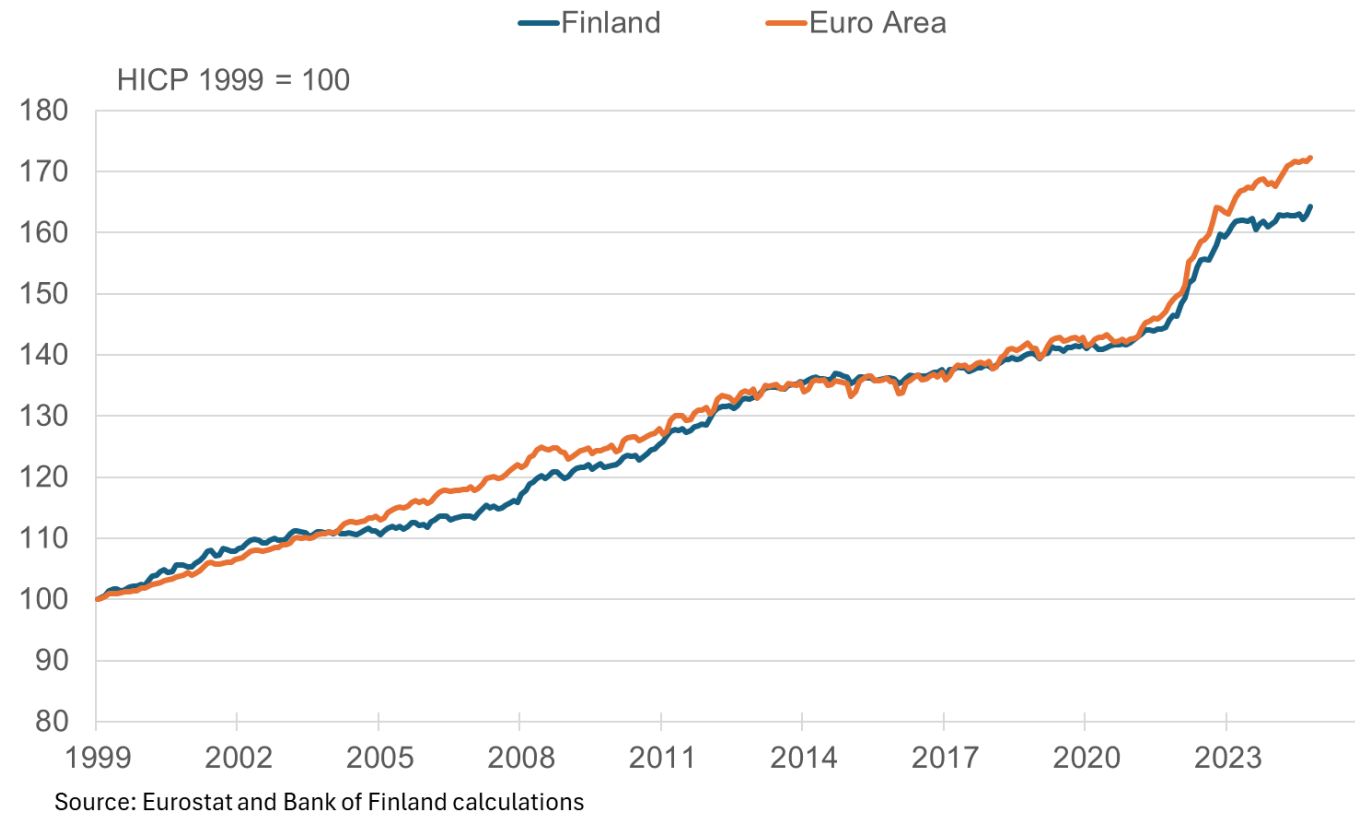


Evolution of public deficit in Finland and in Euro Area

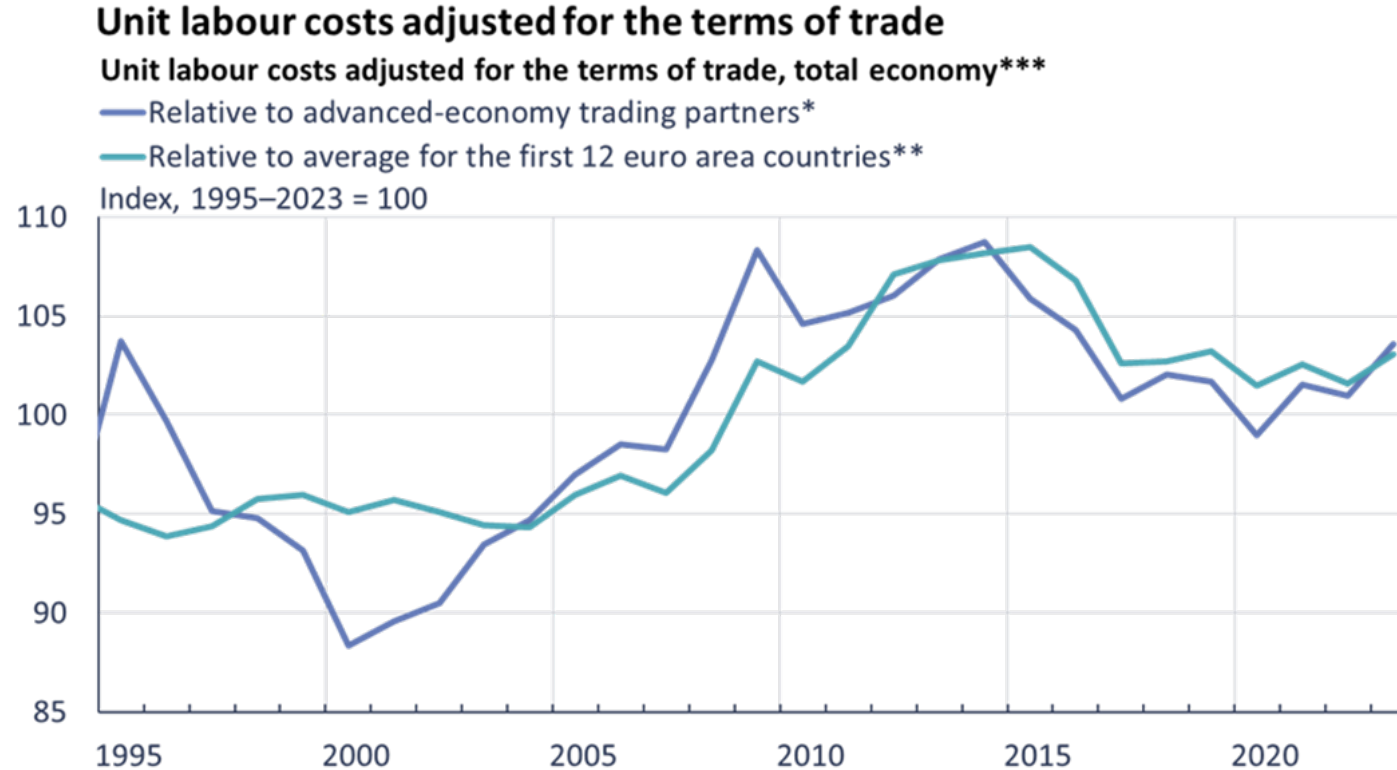


Source: European Commission

Inflation Dynamics: Finland vs. Euro Area



Finland's Cost Competitiveness Has Remained Stable in Recent Years



* 14 traditional industrial economies weighted by their share of Finnish foreign trade, in the same currency.

** The first 12 members of the euro area.

*** Labour costs divided by national income, total economy.

Sources: European Commission, OECD, Macrobond and calculations by the Bank of Finland.

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