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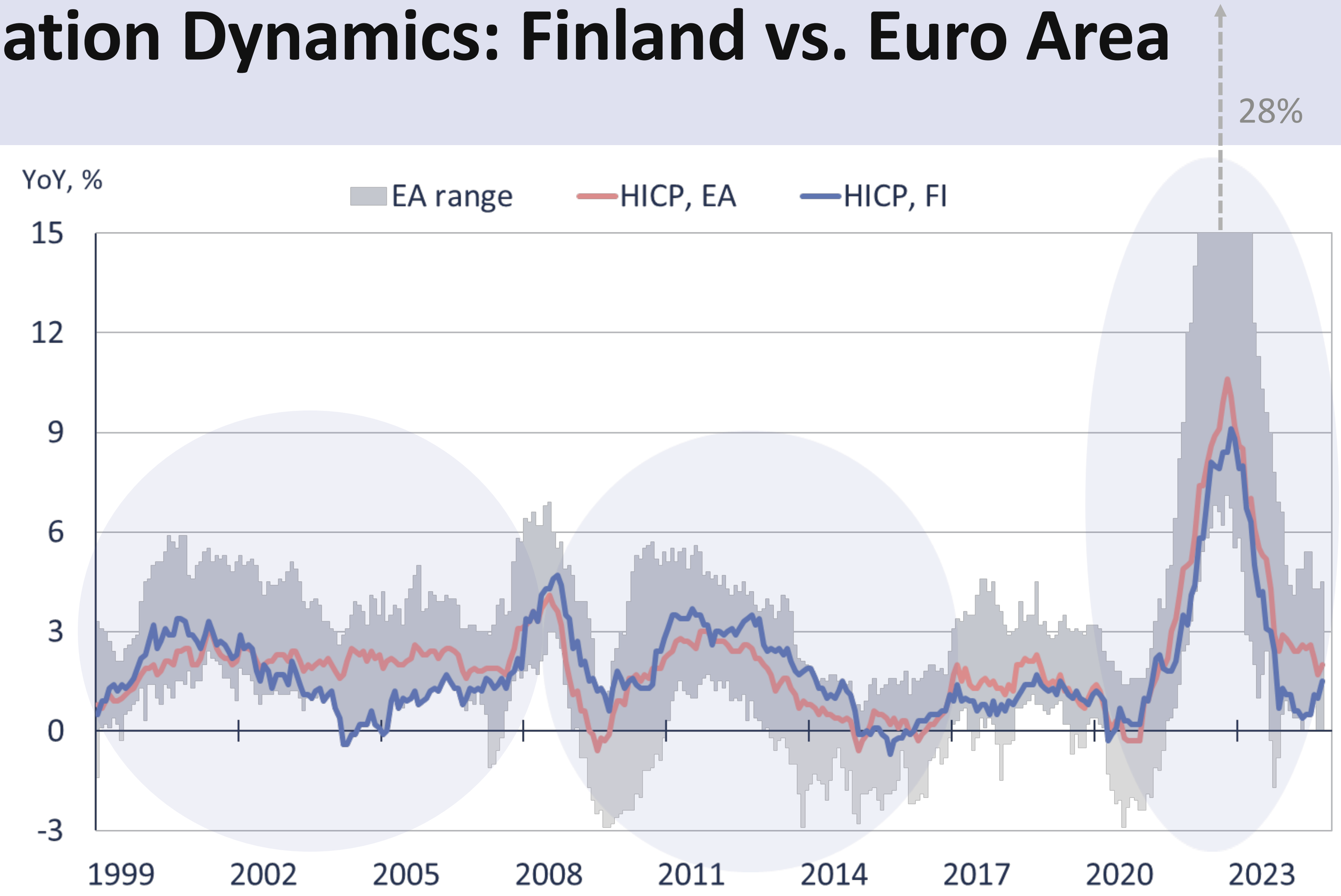
EUROJÄRJESTELMÄ
FINLANDS BANK
EUROSYSTEMET

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 Välimäki
Bank of Finland

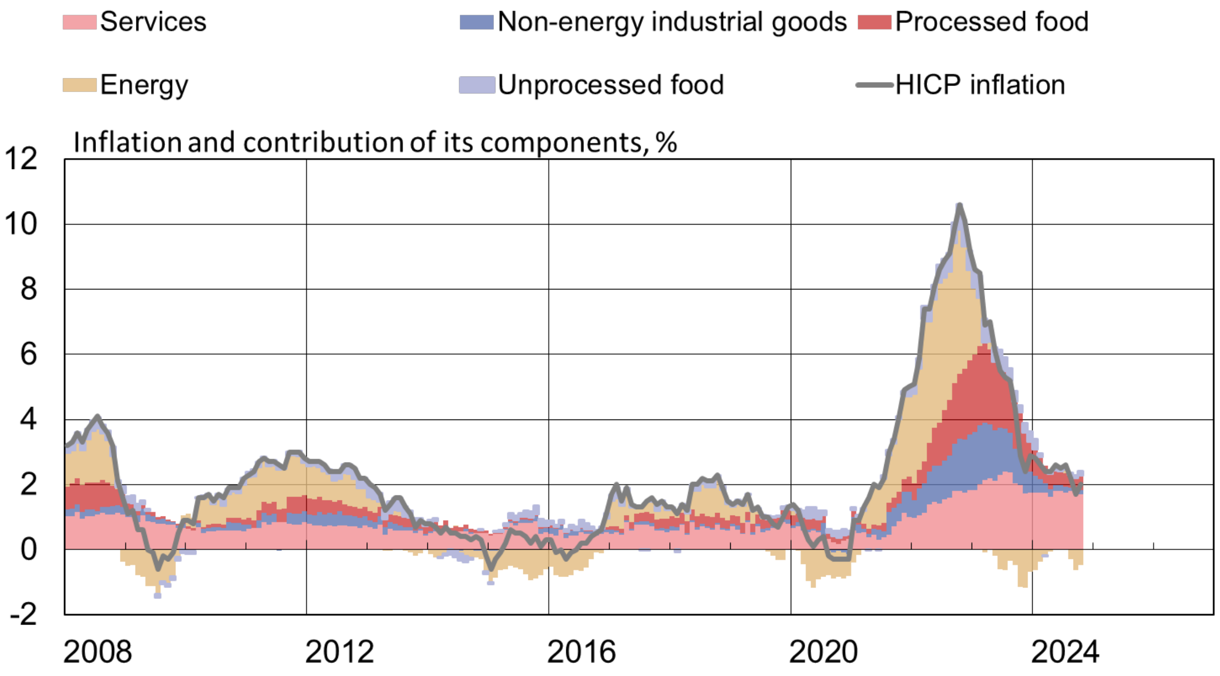
Inflation Dynamics: Finland vs. Euro Area



Source: Eurostat.

Inflation Drivers in the Euro Area and Finland

Inflation contributions in the euro area



Sources: Eurostat and ECB.

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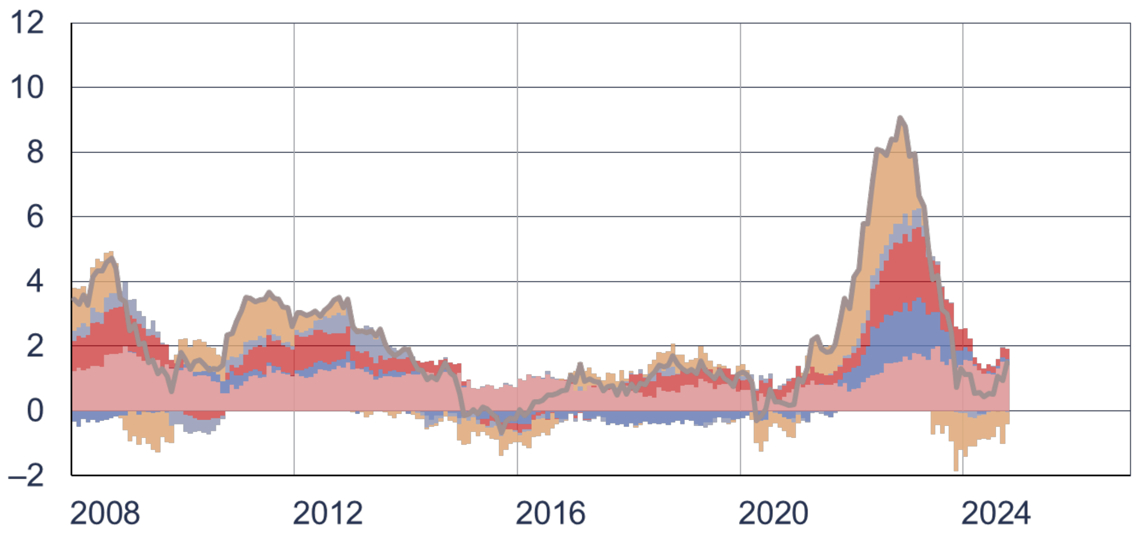
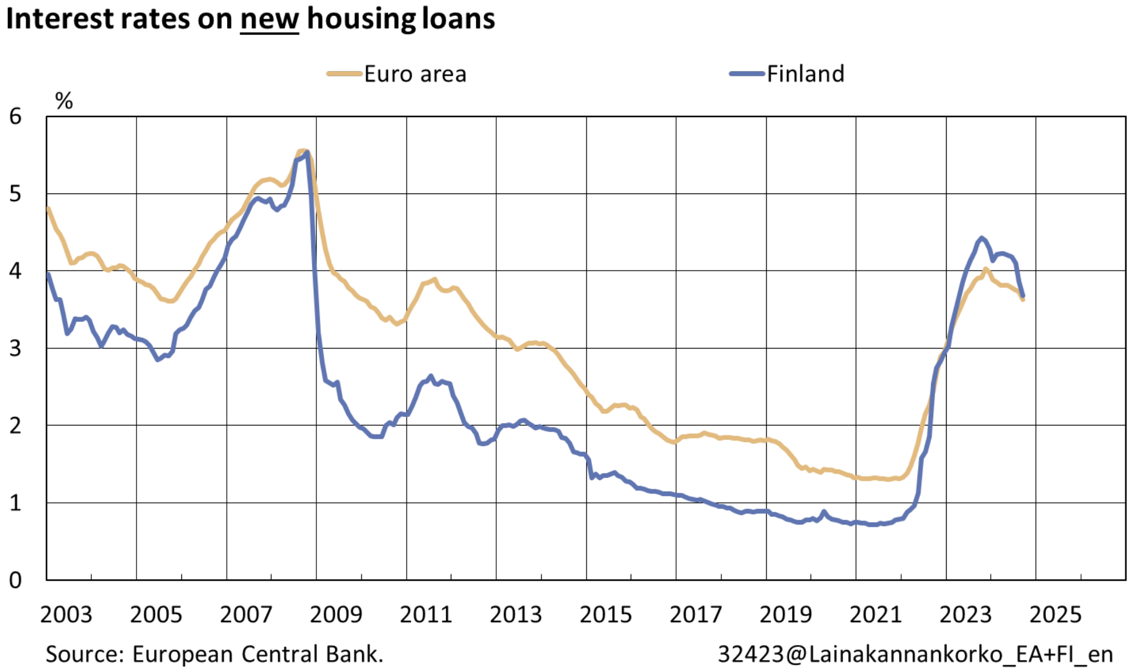
Inflation contributions in Finland

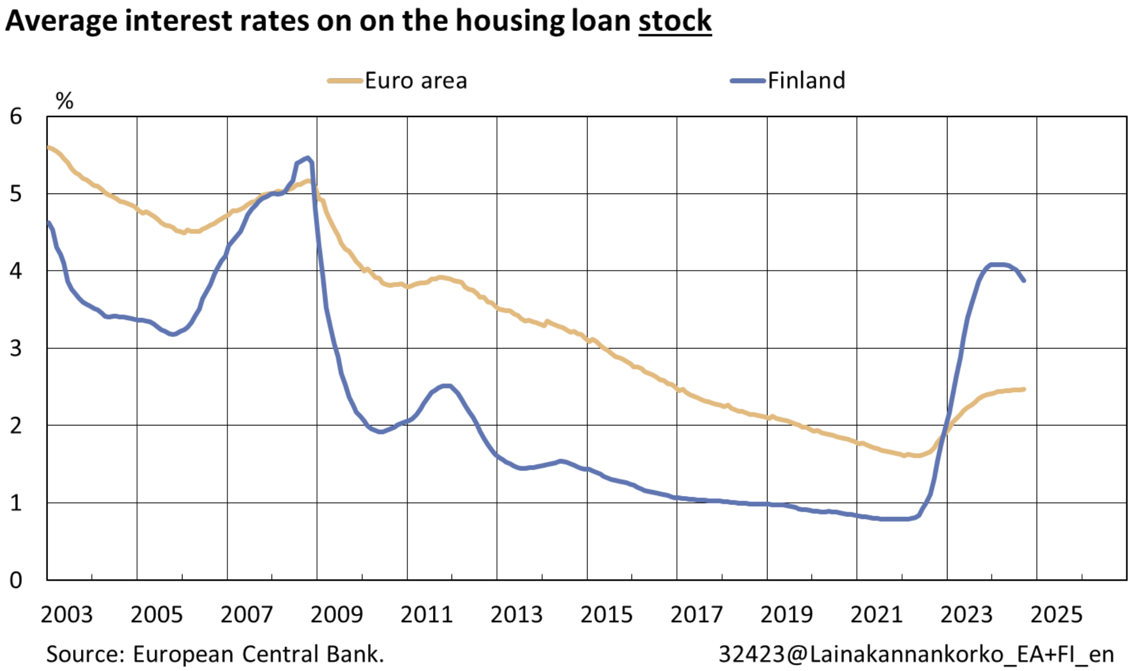


HICP = Harmonised index of consumer prices.

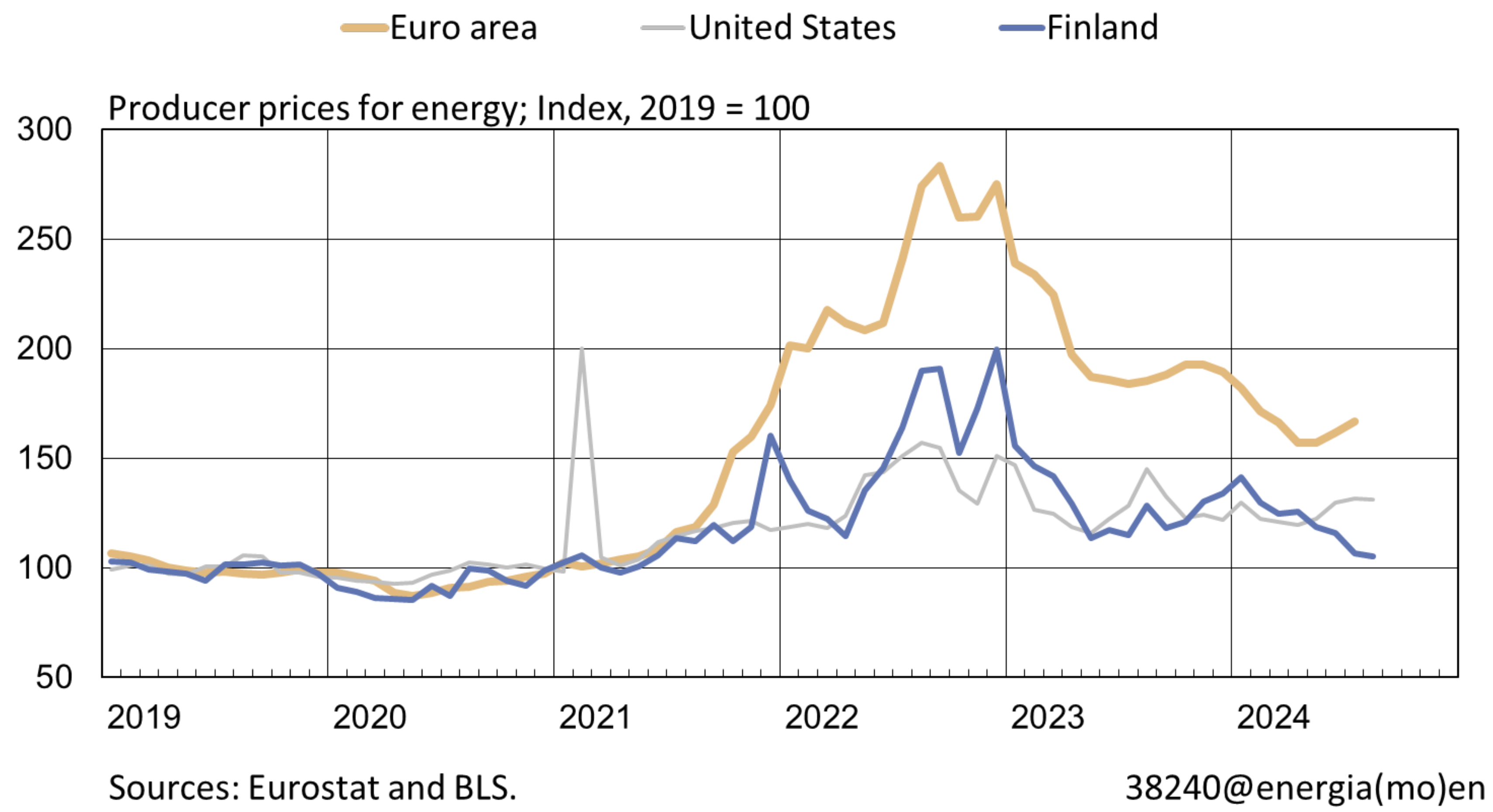
Source: Statistics Finland.

Mortgage Rates in Finland vs. Euro Area

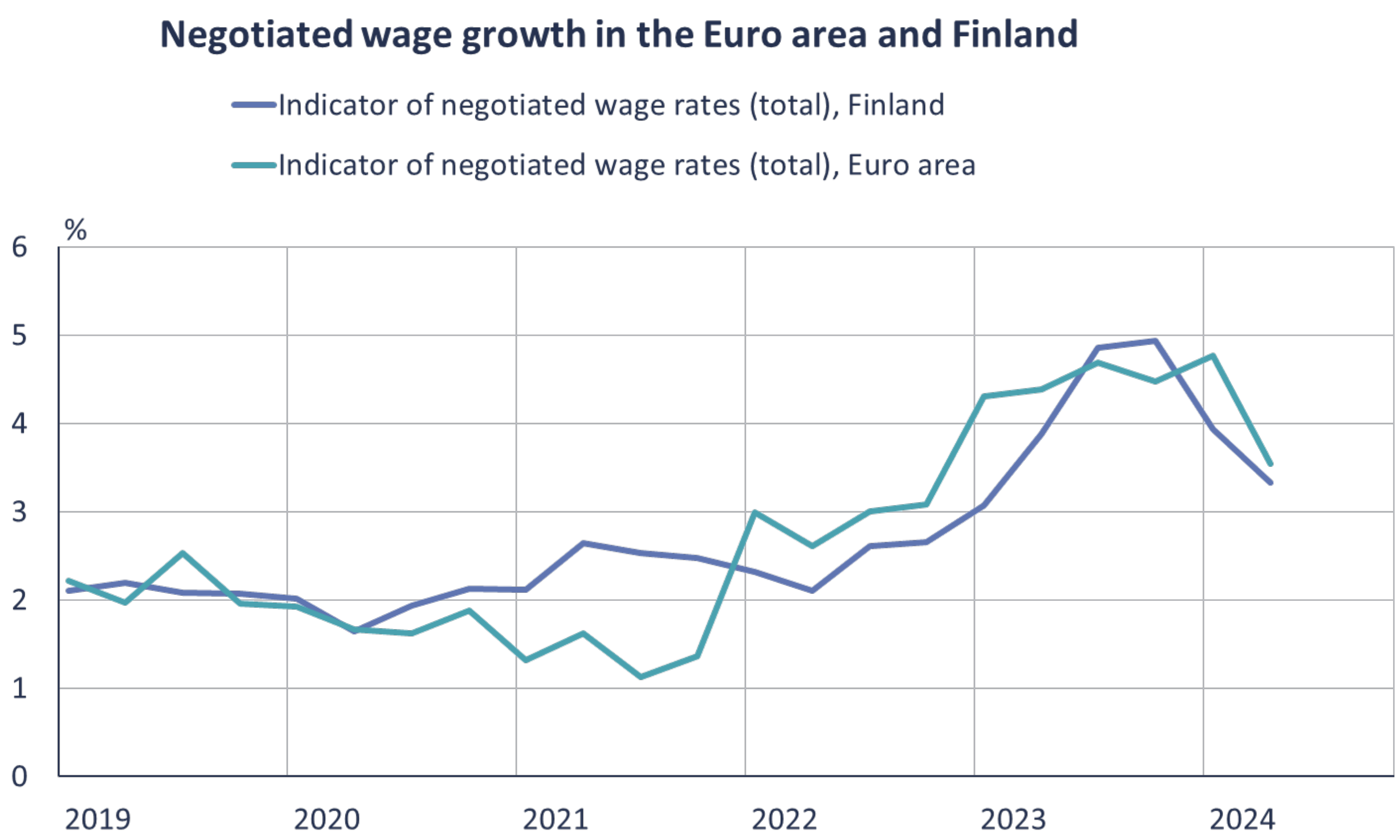




Energy Prices in the Euro Area and Finland



Wage Increases Broadly in Line with the Euro Area



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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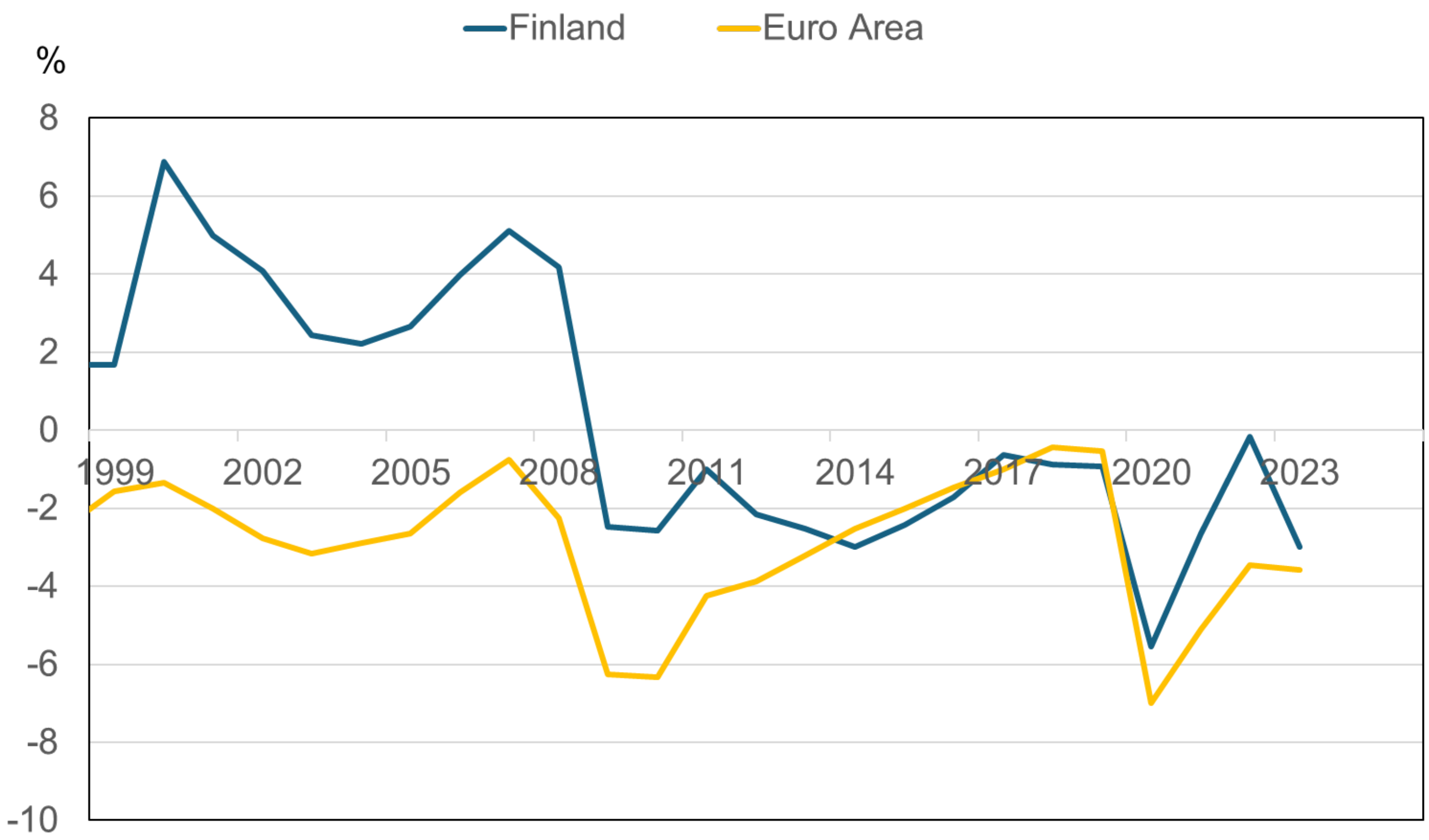
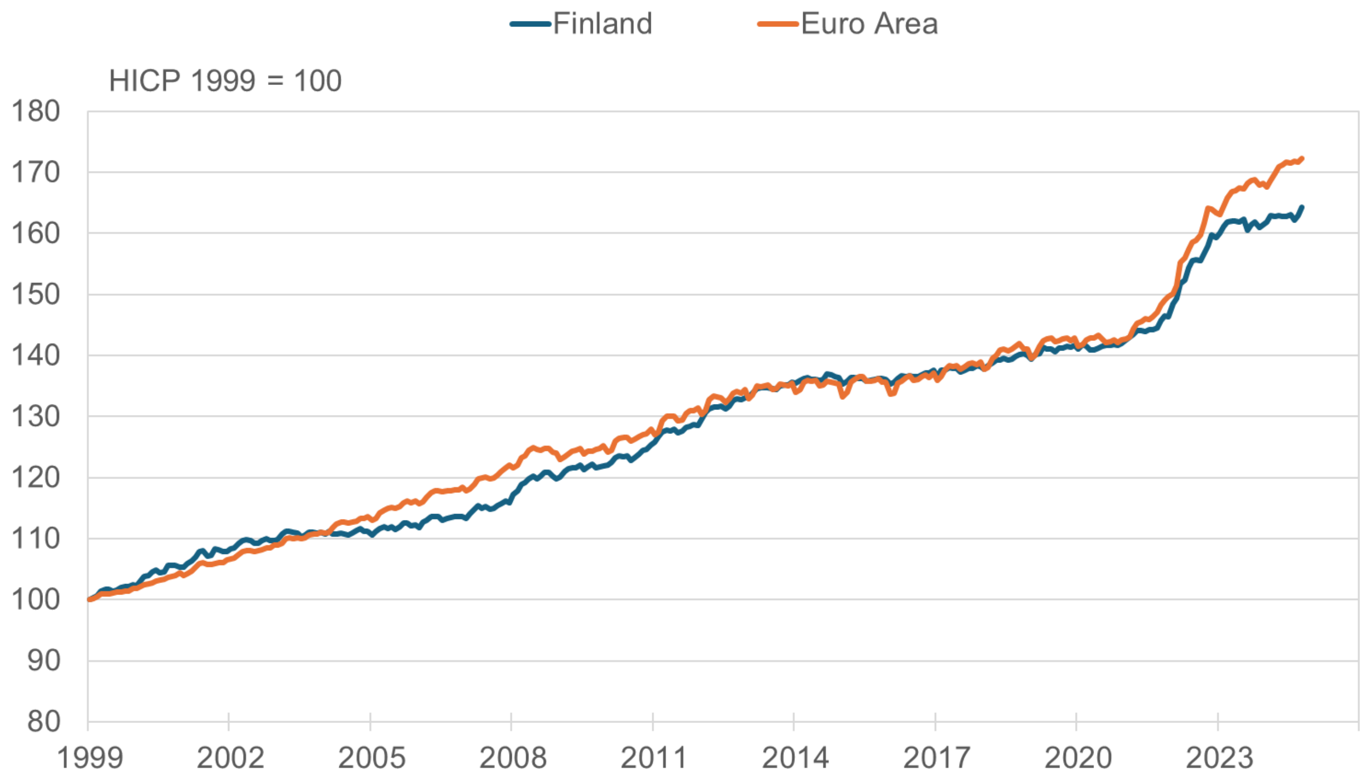
Evolution of public deficit in Finland and in Euro Area



Source: European Commission

Inflation Dynamics: Finland vs. Euro Area



Source: Eurostat and Bank of Finland calculations

Finland’s Cost Competitiveness Has Remained Stable in Recent Years