



SIMPLY SHORT

The Bank of Finland implements the ECB's accommodative monetary policy in Finland

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Monetary policy in the euro area is decided by the Governing Council of the European Central Bank (ECB), whose members include the Governor of the Bank of Finland. The implementation of monetary policy, however, is the task of the national central banks of the Eurosystem. The Bank of Finland grants credit against collateral to Finnish banks and purchases mainly Finnish securities. In doing so, the Bank implements the ECB's monetary policy in Finland. Economic crises, such as the global financial crisis about a decade ago, have significantly altered the tools used by central banks to guide the economy. Traditionally, central banks have steered monetary policy by adjusting their main policy rate, which influences market interest rates and thus the activities of households and businesses. Currently, at a time when interest rates have remained very low for very long, central banks have had to take other measures to stimulate the economy, such as issuing credit to banks at favourable terms and purchasing securities. These measures are also used to galvanize an economy still buffeted by the coronavirus pandemic.



In response to the coronavirus pandemic, the ECB has further eased its monetary policy to maintain price stability and support economic growth and employment. This time, however, the ECB has not lowered its key policy rates, but has eased financing conditions by purchasing securities in the markets and lending money to banks on more favourable terms.

The Bank of Finland is responsible for the purchases of securities in Finland, i.e. the implementation of the Eurosystem's monetary policy purchase programmes. The Bank of Finland's securities holdings under these programmes amount to almost EUR 57 billion. Of this, almost EUR 30 billion are assets purchased under the public sector purchase programme. In addition, over EUR 7 billion worth of assets have been purchased under the new pandemic emergency purchase programme. The majority of the assets purchased are Finnish sovereign bonds. When the Bank of Finland purchases bonds, this lowers their yields (interest rates) in financial markets.

The Bank of Finland also provides credit against collateral to banks operating in Finland. During the coronavirus pandemic, the terms on these loans have been further eased to ensure that banks on their part can provide loans to households and businesses. Finnish banks' take-up of funding has been record-high: at the end of July, the Bank of Finland had issued over EUR 20 billion of credit to Finnish banks.

In order for banks to obtain credit from the central bank, collateral is needed. Collateral protects the central bank against credit risk associated with the counterparty. The eligibility criteria for collateral have been eased in many ways during the coronavirus pandemic. For example, from 1 September 2020, the Bank of Finland will extend the range of bank loans eligible as collateral. This additional credit claim (ACC) framework will support continued bank lending especially to firms which have been buffeted by the pandemic.

The task of implementing monetary policy provides the Bank of Finland's experts a greater understanding of real-time events in the financial markets. Financial market monitoring and analysis are vital to the preparation of monetary-policy decisions and the monitoring of their implementation. Information obtained from the financial markets provides indications on the economic situation and financing conditions. The monitoring of financial markets is even more important in crises because emerging problems in the economy and the financial system are usually first reflected in the financial markets.

Tags

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