

Olli Rehn

Governor, Bank of Finland

Bretton Woods @ 75 – What is New with the International Monetary System?

Remarks at the Seminar "Managing the Soft Landing of the Global Economy"

Reinventing Bretton Woods Committee,
Washington DC, 12 April 2019





What is new with the international monetary system?

- **Key objective: fostering stability**
 - Bretton Woods 1944; Adoption of euro 1999
 - Heightened importance for small, open economies → case Finland
- **Central scenario: continued US\$ dominance in the international monetary system**
- **€'s international role depends essentially on the strength and dynamics of the euro area and its member economies**
 - Complete Banking Union; capital markets & investment; economic reforms
- **Dig deeper → Operating environment profoundly changed**
- **Key lesson from GFC → Financial resilience = vital**
 - Continue to develop financial regulation at global level
 - Regulatory achievements must be protected



Monetary policy challenges

- **Transformation of the operating environment poses immediate and longer-term policy challenges**
 - **Short-term: Maintain a very accommodative monetary policy stance as global growth momentum is waning**
 - Monetary policy normalization on hold
 - Recent ECB decisions: (1) keeping key policy rates unchanged for longer; (2) reinvesting maturing asset purchase program securities for longer; (3) new series of targeted longer-term refinancing operations in fall 2019
 - **Longer-term analytical puzzles:**
 - Decline in the natural rate of interest (= the equilibrium interest rate)
 - Flattening of the Phillips Curve re core inflation and (un)employment
 - Decline in inflation expectations
- **Makes a case for a review of monetary policy strategy**