

SUOMEN PANKKI
EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Eurozone outlook and ECB monetary policy

MNI Connect Video Conference
18 March 2025

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Bank of Finland

Geopolitics dominates economic outlook

Europe

- **Russia, Ukraine, Europe's security**
- Productivity and industrial competitiveness

Global troubles

- **Rules-based international trade under threat**
- Middle East conflict and shifting power relations
- Climate goals slipping: on track for +2.5°C to +3.0°C?

United States

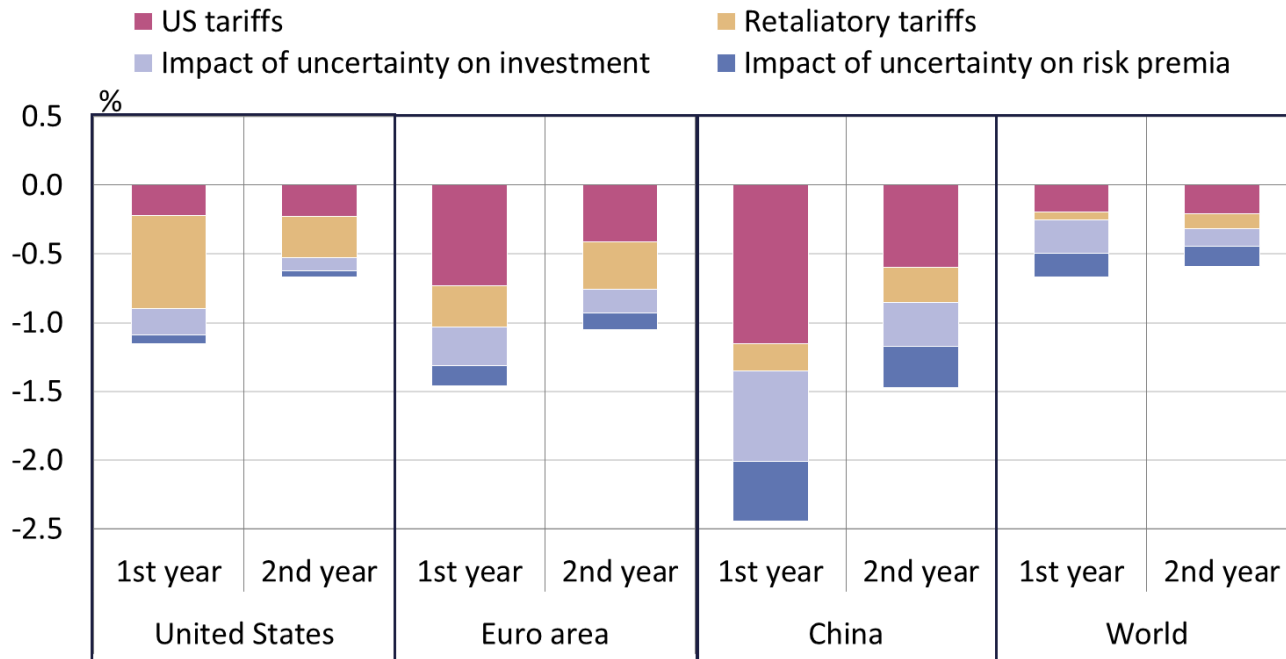
- Relations with Europe?
- Way forward for democracy and the rule of law?
- What is the West?



Asia

- China's economic woes
- India now world's most populous and fastest growing G20 country
- Asia's century under way – or will it collapse with conflict in the South China Sea?

Bank of Finland's scenario calculation: A trade war would weaken growth worldwide

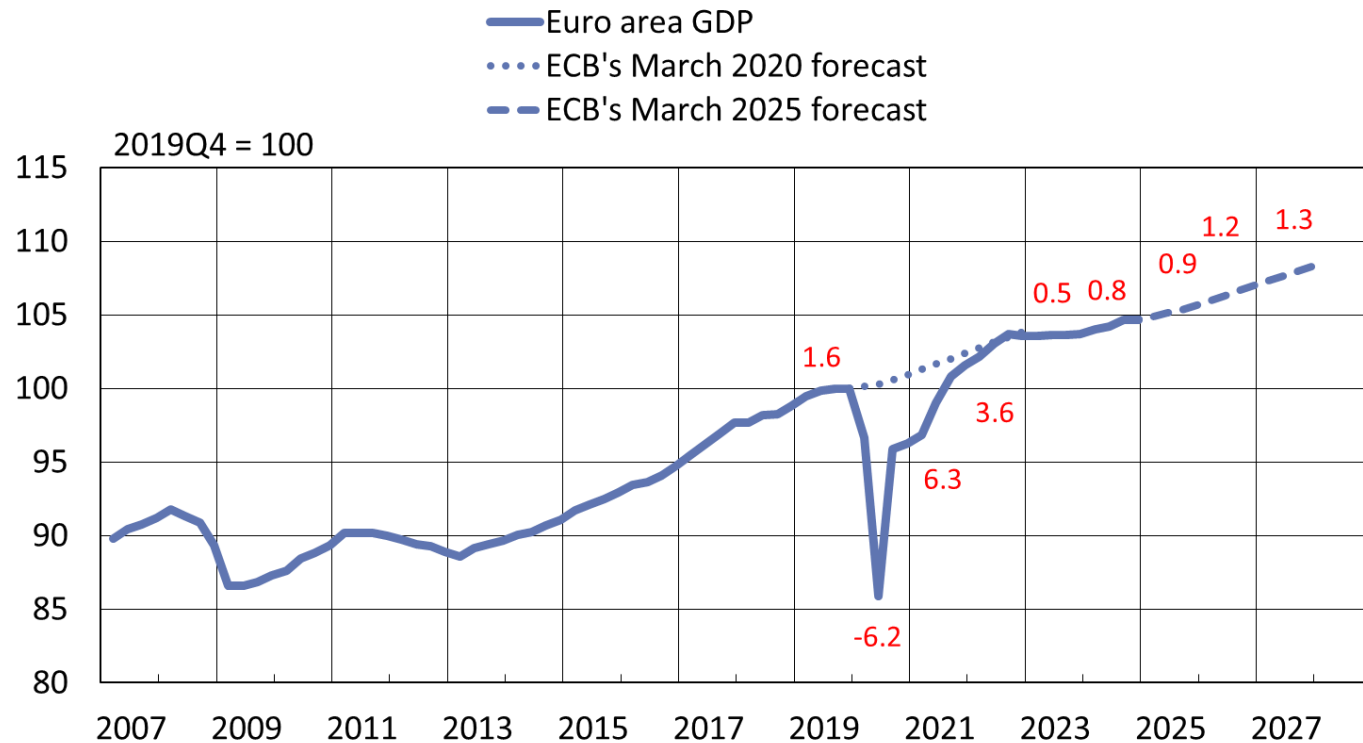


Source: Calculations by the Bank of Finland.
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- Scenario assumptions: 25% US tariff on imports from the euro area; 20% US tariff on imports from China; symmetric retaliatory tariffs. The increase in uncertainty is taken into account.
- There are no winners in a trade war.
 - World GDP approx. -0.5% per year
 - Significantly stronger impacts on the euro area and especially on China. Retaliatory tariffs would weaken the market position of US companies in particular
- Uncertainty related to trade disputes will hit investment and raise risk premia.
- Impact on inflation moderate.
- Estimates of the impact of the trade war vary a lot.

Growth in the euro area economy picking up gradually – exceptional uncertainty is slowing the recovery



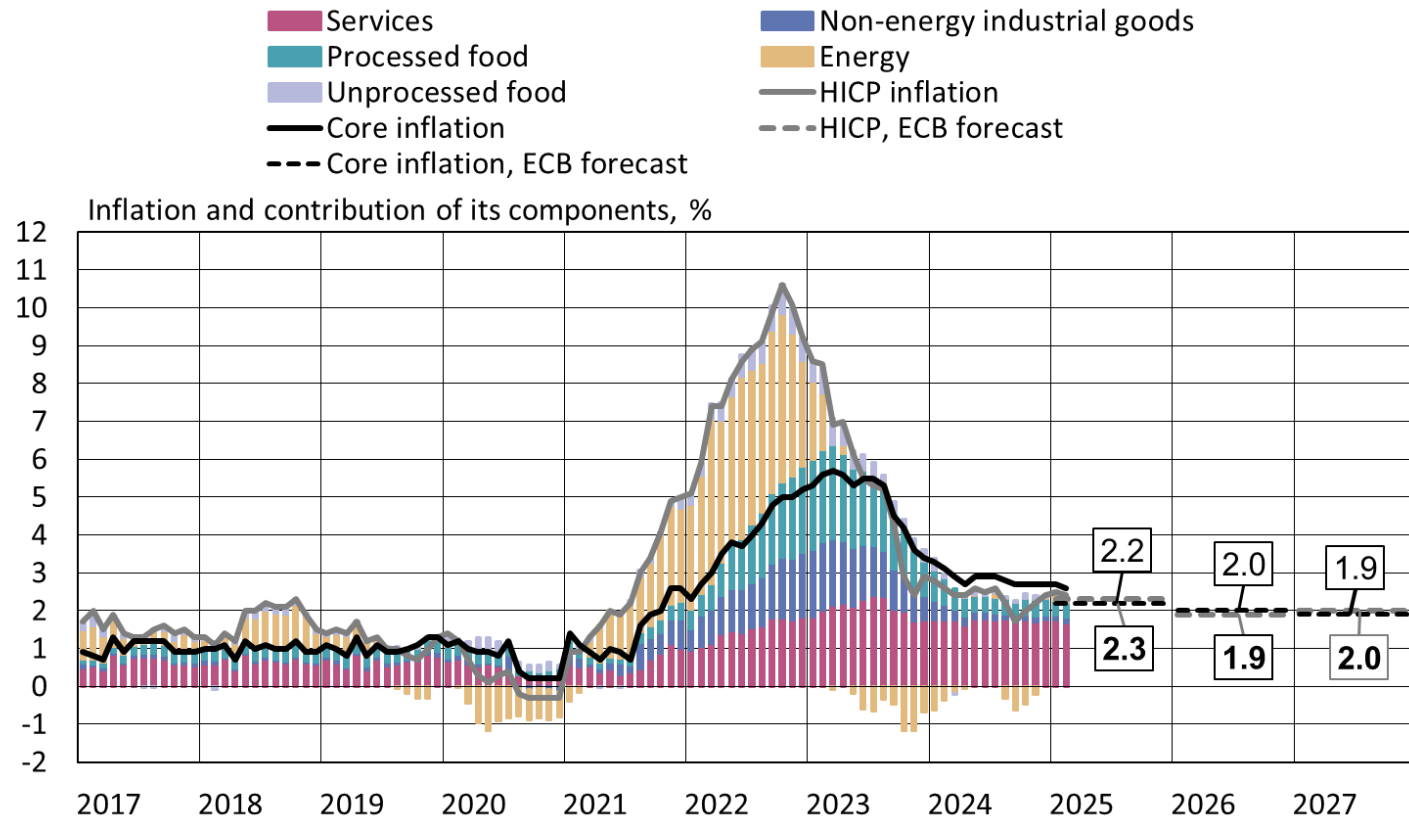
Figures next to the curve are annual growth rates, %.

Sources: Eurostat and ECB.

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- According to the ECB's March forecast, the economy will gradually strengthen as purchasing power is bolstered by growth in household real income.
- Growth is weaker than before and the outlook is clouded by exceptional uncertainty.
- Interest rate cuts will strengthen consumption and investment in the euro area over time.

Euro area inflation stabilising at the 2% target



Sources: Eurostat and ECB.

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- Euro area wage inflation is projected to slow.
- Most measures of underlying inflation also suggest that inflation will settle sustainably at around the ECB's 2% target over the medium term.
- Inflation risks are two-sided.

ECB's decision to ease monetary policy spurred by inflation stabilising and growth weakening

- At its March meeting, the ECB Governing Council reduced the deposit facility rate to 2.50%.
- Since June last year, this principal policy rate has been lowered six times by a total of 1.5 percentage points (4% → 2.5%).
- Monetary policy is becoming meaningfully less restrictive.
- The ECB is not committed to a particular rate path. Policy rates are set meeting-by-meeting based on the latest information and our comprehensive assessment.
- The Governing Council retains full freedom of action in times of high uncertainty.

Europe is under challenge from the world of geopolitics – investment is needed now in security and productivity

- The world is in transition, as it was 30 years ago – but is now going in reverse gear.
 - All of Europe must invest substantially in defence.
 - Necessary investment in defence is having to be made in an environment where public finances are under pressure. Common European solutions are also needed.
 - At the same time, Europe must find ways to increase productivity. The single market must be finalised and investment made in human capital and research.
- Europe must show its capacity for renewal and display unity. Recent weeks have shown that a common response is more critical than before. No time to waste.



” *Securing stability,
in science we trust.*

