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EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

The European Economy in the New Landscape of Power Politics and Trade Protectionism

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Bank of Finland

Power politics is overshadowing the world economy now with exceptional force

Europe

- Russia's illegal war in Ukraine
- Inflation stabilising to the 2% target
- Productivity and industrial competitiveness?

Global troubles

- Trade wars and the erosion of rules-based system
- The Middle East conflict
- Climate goals slipping: on track to +2.5-3.0°C?

United States

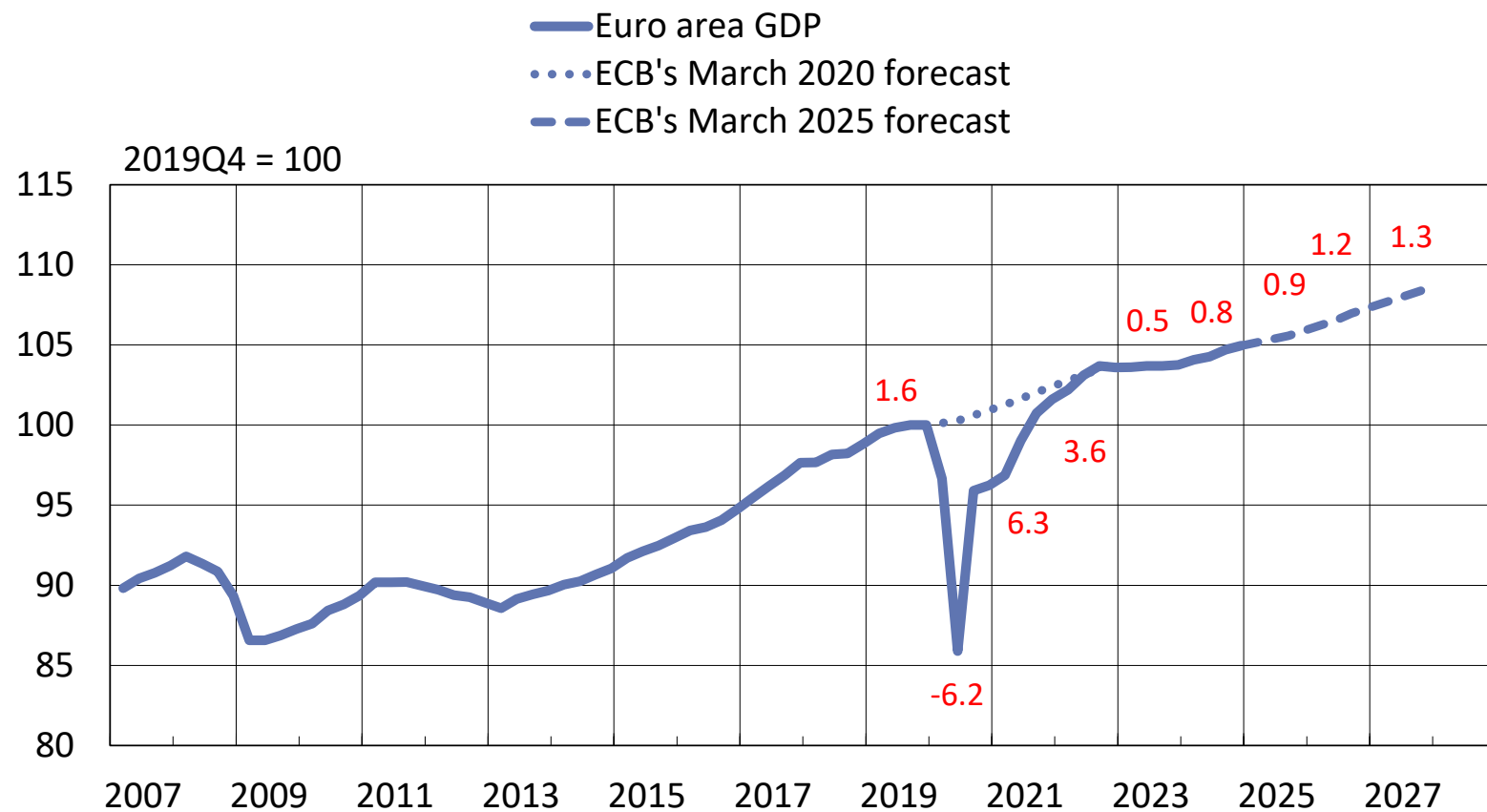
- Trade and fiscal policies?
- Approach to Ukraine, Russia?
- Strategic competition with China: trade, tech, Taiwan?



Asia

- China's economic woes
- India fastest growing G20 country
- Asia's century under way – threatened by conflict in the South China Sea?

Growth in the euro area has been picking up, but the trade war is weakening the prospects

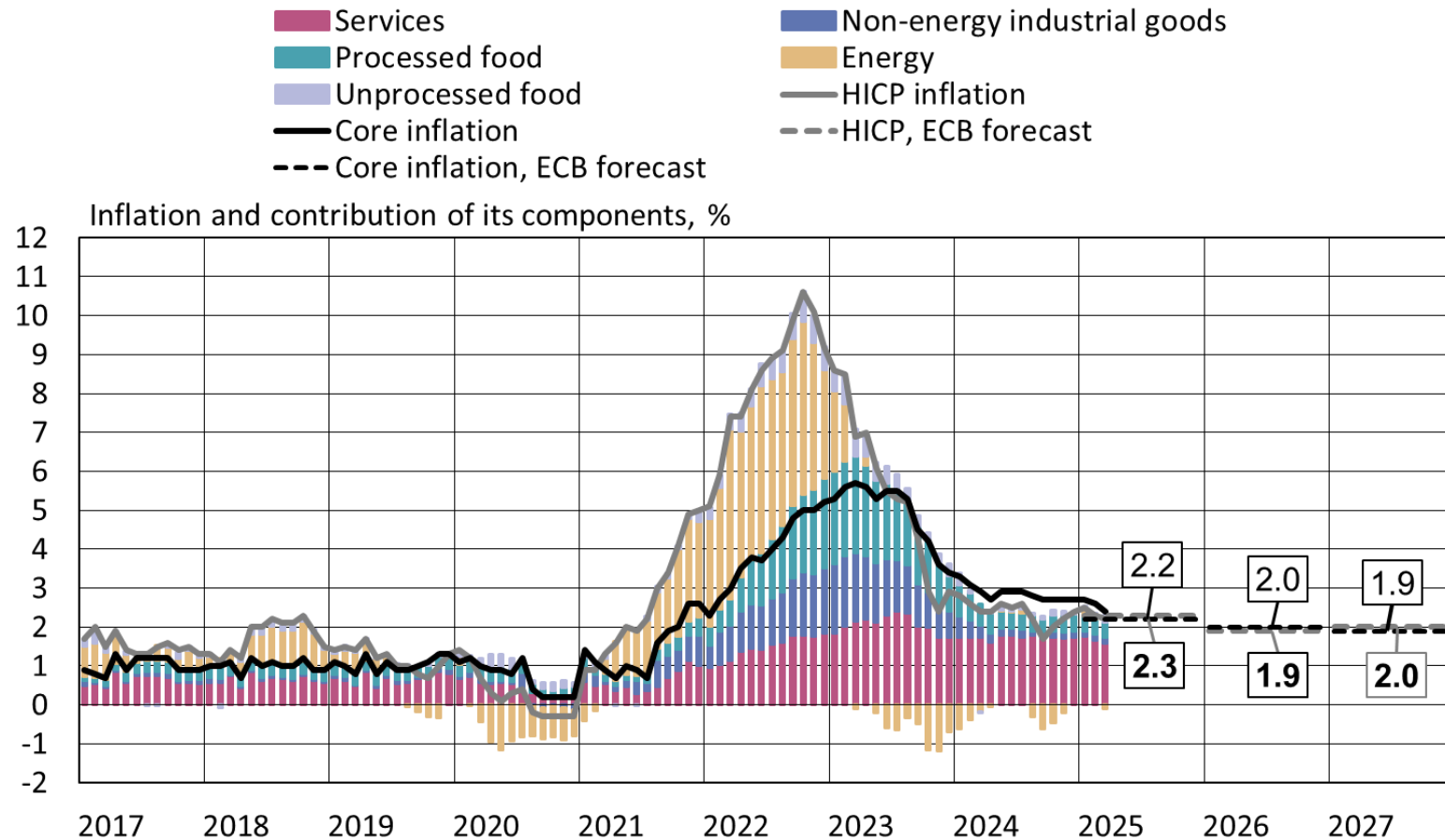


Figures next to the curve are annual growth rates, %.

Sources: Eurostat and ECB.

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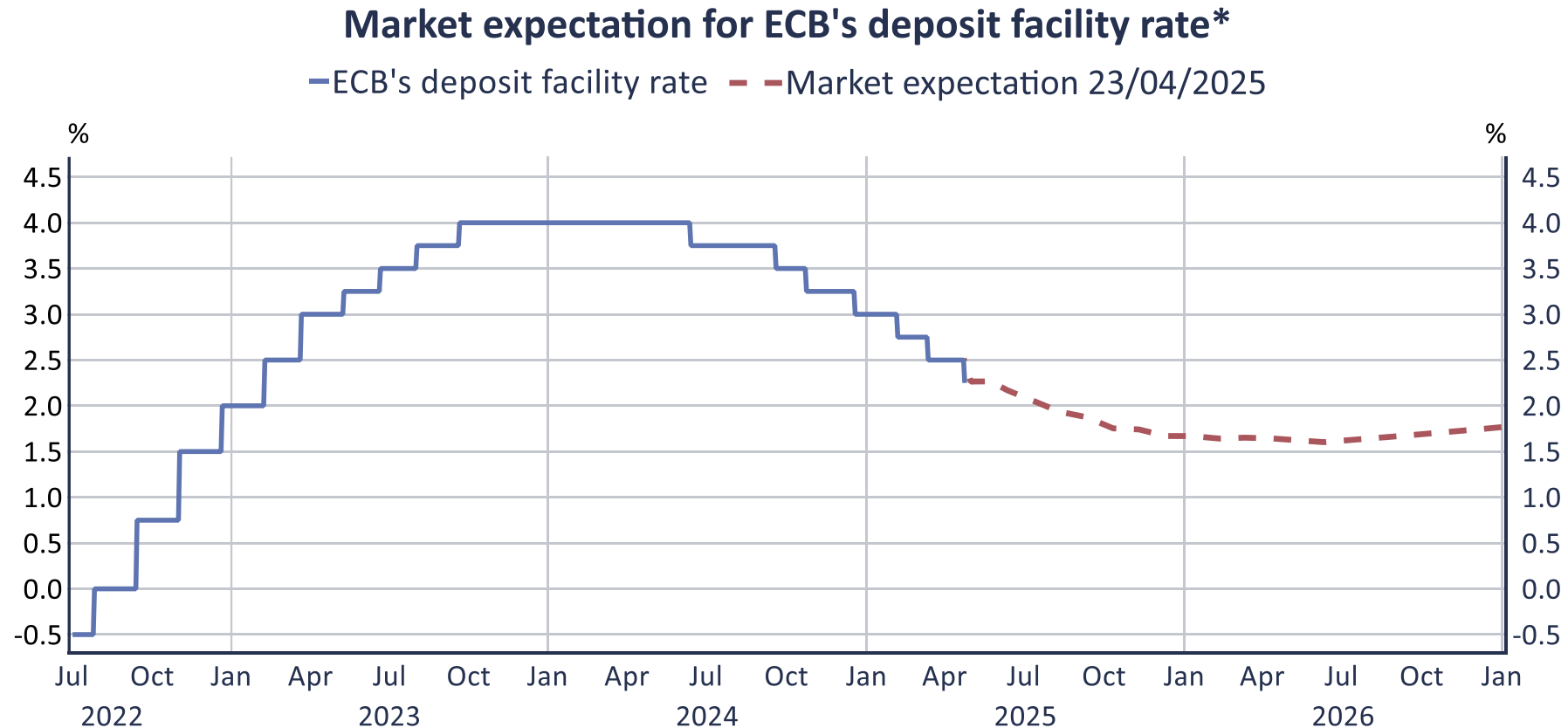
Euro area inflation is stabilizing at the ECB's 2% target



Sources: Eurostat and ECB.

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Market forces expect further easing of ECB monetary policy



Source: ECB, Bloomberg and Bank of Finland's calculations.

Based on €STR OIS rates and an assumption of constant 10 bps spread between ECB's deposit rate and €STR.

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EU free trade agreements: 45 in place with 76 countries, and more being negotiated



Europe is working on to increase productivity

- Europe's populations are ageing, green investments require funding, public debts and deficits are large and defence spending has to be raised.
- This calls for a strong and unified response from the EU → Draghi's report.
 1. Bridging the innovation gap with the United States by reforming the innovation process across its entire lifecycle and improving the level of education in Europe.
 2. Combining Europe's ambitious climate goals with industrial competitiveness.
 3. Enhancing security and reducing critical dependencies.
- Monetary policy can best support sustainable growth and the investments needed to boost productivity by safeguarding price stability.

Reflections on the ECB's 2025 strategy assessment

- No need to change the symmetric inflation target of 2% over the medium term
- Need for a better understanding of the inflation dynamics of recent years and of the secular trends affecting monetary policy going forward, for instance:
 1. Geopolitics and fragmentation: increasing supply shocks & inflation volatility?
Analyse both supply and demand shocks
 2. Labour markets in transformation: rise in the employment rate and immigration; a secular decline in labour productivity growth
 3. Contradictory tendencies in the long-term real natural rate of interest

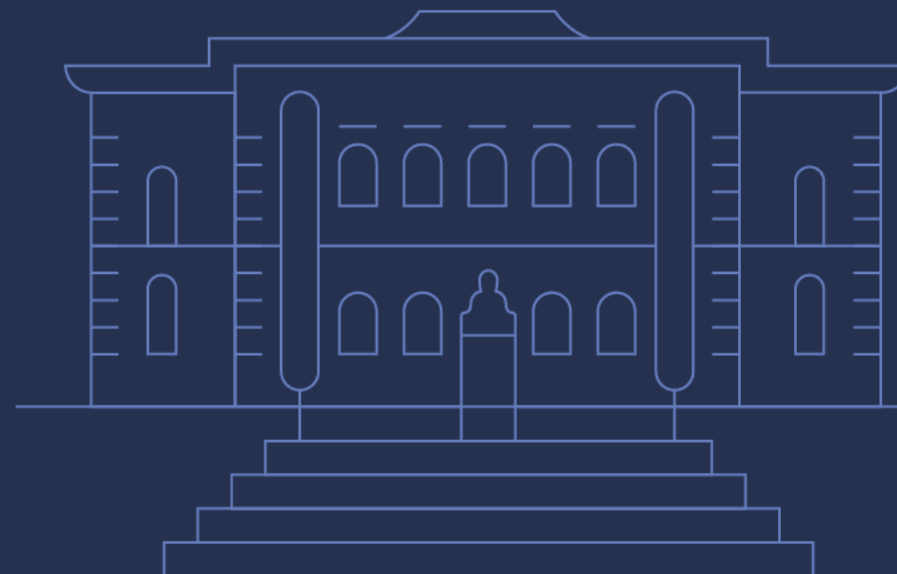
Summing up

- Geopolitical tensions contribute to significant uncertainty and volatility.
- A new trade war should be avoided, especially among allies. If a trade war were to start, Europe is not be unprepared for it.
- Strengthening European productivity growth and industrial competitiveness is key – determined national action and EU-wide cooperation is needed for success.
- Maintaining price and financial stability creates a sound environment for productivity-enhancing investments and sustainable growth.



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Securing stability –
in science we trust.



Thank you!