

## Olli Rehn: Walking a fine line - the European economy and ECB monetary policy in a shifting global landscape

Remarks by Mr Olli Rehn, Governor of the Bank of Finland, at the Lorenzo Codogno Macro Advisors (LCMA) Forum, XXX, 28 April 2025.

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### *[Presentation](#) accompanying the speech*

Let me first thank the LCMA [Lorenzo Codogno Macro Advisors] for inviting me to speak at this conference. To kick off, I will briefly discuss the ongoing change in the global landscape and its implications for the economic outlook in the euro area and for the ECB's monetary policy.

#### Slide 2. Geopolitics overshadowing the economy

Today, we are on the cusp of profound changes in the global trading and economic relations. A rules-based multilateral system is being challenged by deals-based bilateral relationships.

From a European perspective, the uncertainty extends beyond economics. The security policy environment of Europe is currently transforming as rapidly as it did in the early 1990s, only this time in reverse.

These developments come on top of challenges we were already grappling with: from climate change and Europe's productivity slowdown to persistent conflict in the Middle East and China's challenge to liberal world order.

#### Slide 3. Shifting global landscape implies major uncertainty

With the backlash of globalisation and the European security order being damaged, it is no exaggeration to say that the economic outlook for Europe is marked by pervasive and persistent uncertainty.

And by any metric you wish to look at, uncertainty related to policy – particularly around US trade policy – has grown enormously. These developments are now reverberating also through financial markets, where we are witnessing heightened volatility across asset classes. Notably, the behaviour of US-related assets has been unusual, as investors reassess their view of the US economy.

Tariffs will have a negative effect on growth in the short, medium and long term. Apart from direct effects, it is the pervasive uncertainty – especially policy uncertainty – that is detrimental to investment and economic activity.

Taken together, the pervasive uncertainty and the tariffs themselves hold back the global growth momentum-which was already estimated to be weaker than that in the pre-pandemic era. As a result, downside risks dominate the outlook.

#### Slide 4. The economic outlook is surrounded by downside risks

What does this all mean for the European economy?

Based on recent data, the euro area economy was recovering pretty much in line with the ECB's forecasts. Private consumption growth has strengthened due to the increase in real income, and tentative signs of improvement have emerged in the manufacturing sector, which has been under pressure for some time. Employment in the euro area is solid, and unemployment is at a historic low of 6.1%. The fiscal impulse from increasing spending and investments in Europe's common defence and infrastructure will contribute to bolstering growth in the medium term.

However, the trade war and the enormous uncertainty it brings are now holding back growth also in the euro area. Some of the downside risks foreseen in the ECB's March projections have already materialised, and as a result, the growth outlook has further weakened.

Slide 5. Inflation is converging towards the ECB's 2% target

Turning to the inflation outlook, the ECB's March projections suggested that euro area inflation is stabilising at our 2% target over the medium term. Disinflation is well on track.

A particularly important development is the decline in services inflation, which had remained stubbornly high at around 4%, but has now clearly moderated. Wage inflation, including forward-looking indicators, supports the view that underlying inflationary pressures are easing.

Looking ahead, economists are largely unanimous that tariff increases will accelerate inflation in the US, but in the euro area the effects are two-way. The higher import costs increase some prices, but weaker growth dampens inflation.

Most economists also assumed the euro to depreciate in response to US tariff actions. In fact, the opposite has occurred-adding further complexity to the inflation outlook. At the same time, China may redirect exports to Europe, potentially increasing supply and dampening prices further.

Overall, financial markets seem to think that tariffs and the surrounding uncertainty will slow down euro area inflation, at least in the short term. This time I tend to agree with the markets. Taking into account these developments, I find it reasonable to assume that there are downside risks to the inflation outlook in the ECB's March projections.

Slide 6. The ECB retains full freedom of action due to uncertainty

Against this growth and inflation outlook, we decided before Easter at the ECB Governing Council to cut rates again by 25 basis points. Since last June, we've cut rates seven times – from 4% to 2.25%. These moves support consumption and investment in the face of global headwinds.

It is important that we remain vigilant about any deviations from our symmetric 2% inflation target, in line with our strategy. If inflation is projected to fall below our 2% inflation target over the medium term, then the right reaction is to cut rates further. I

think it is important that we do not let any thresholds, such as an estimated neutral rate, constrain us. This is a time for agile and active monetary policy.

We will continue to decide on interest rates at each meeting in accordance with our three-element framework: the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. Under the pervasive uncertainty, it is even more important than before that the Governing Council maintains full freedom of action in setting its monetary policy.

And finally, while markets have been able to weather the recent volatility and are functioning well, we of course monitor the events closely and stand ready to use all instruments that are necessary in order to preserve price stability and financial stability.

Let me conclude. In these uncertain times, we at the ECB will do our part in creating favourable conditions for Europe's success. First and foremost, this means safeguarding the euro area's price and financial stability. In the face of policy- or politics-driven turbulence and elevated uncertainty, a strong commitment to maintaining price stability over the medium term is more important than ever.

Thank you for your attention. I will be glad to take any questions that you have.