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EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Walking a fine line: The European economy and ECB monetary policy in a shifting global landscape

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Governor Olli Rehn
Bank of Finland

Geopolitics is overshadowing the world economy now with an 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
- The BRICS' challenge to the liberal global order
- Climate goals slipping: on track to +2.5-3.0°C?

United States

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

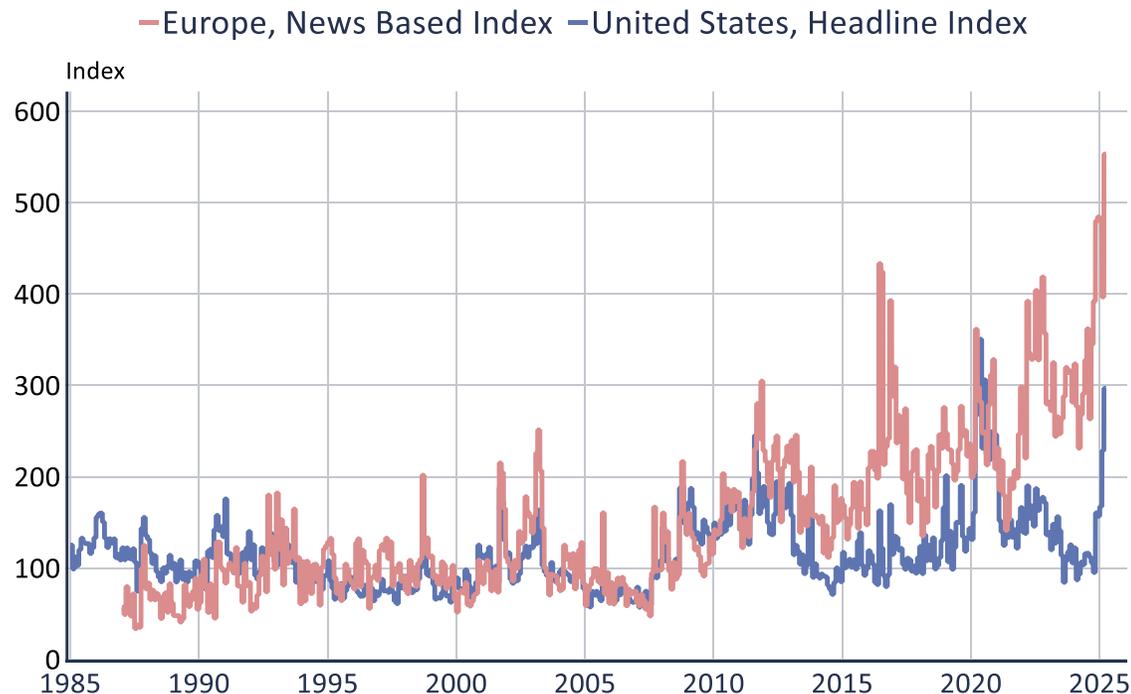


Asia

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

The shifting global landscape implies major uncertainty

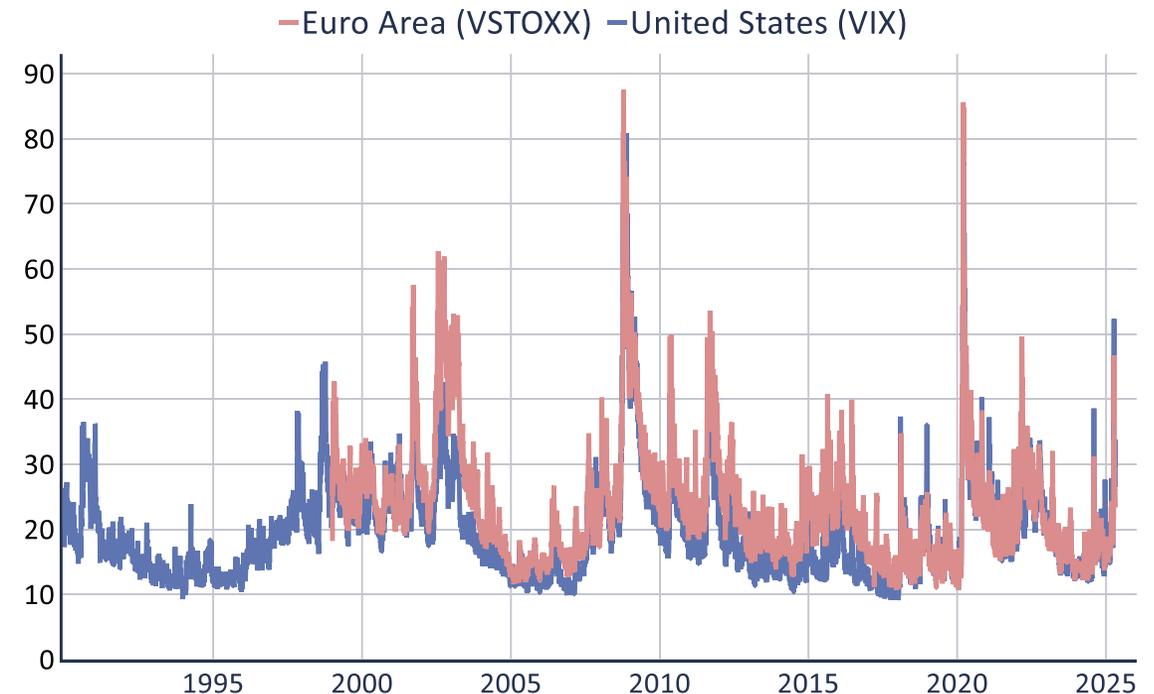
Economic Policy Uncertainty



Sources: EPU. Index levels are not directly comparable to each other.

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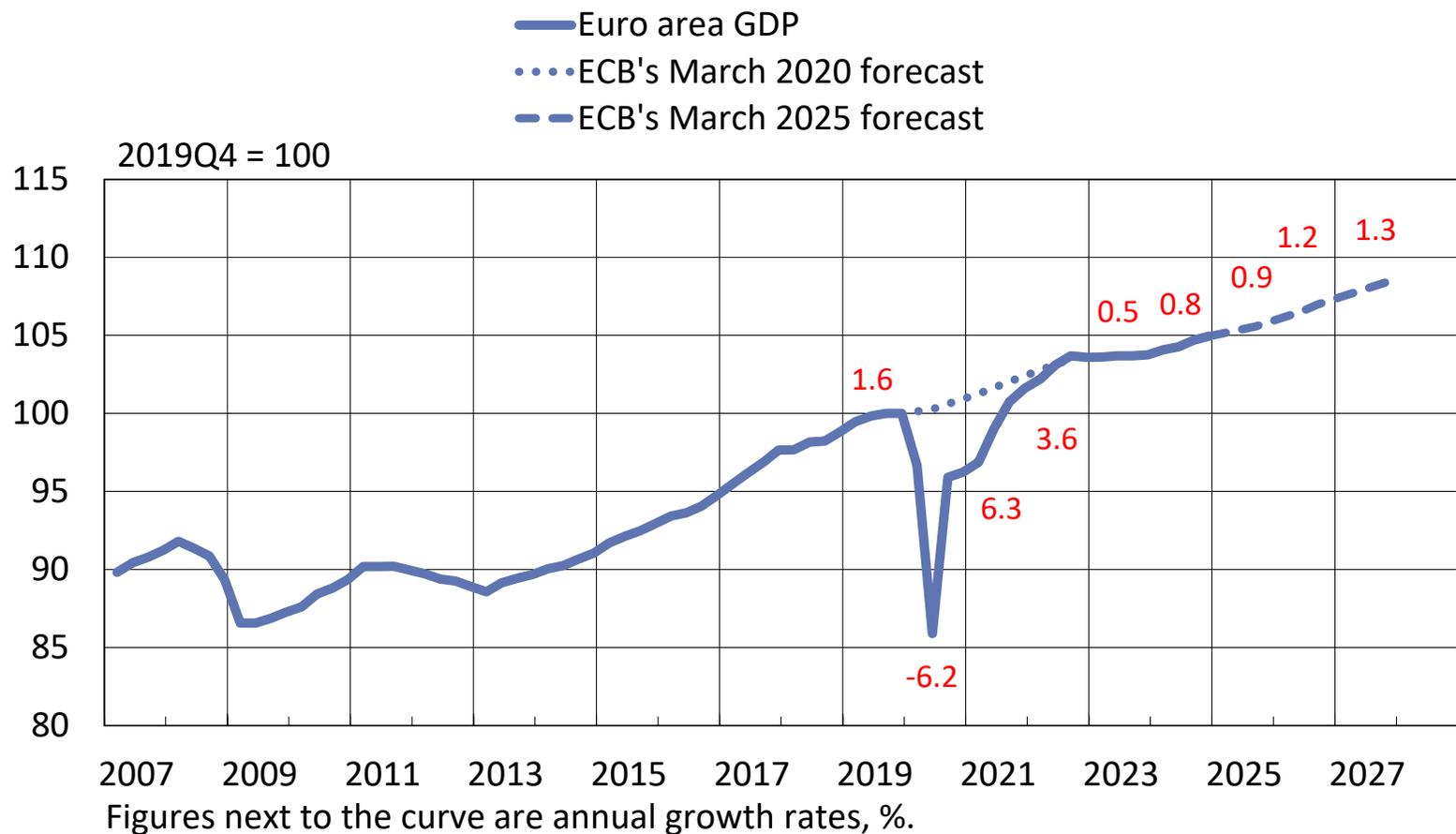
Option-Implied Stock Market Volatility



Sources: CBOE and STOXX.

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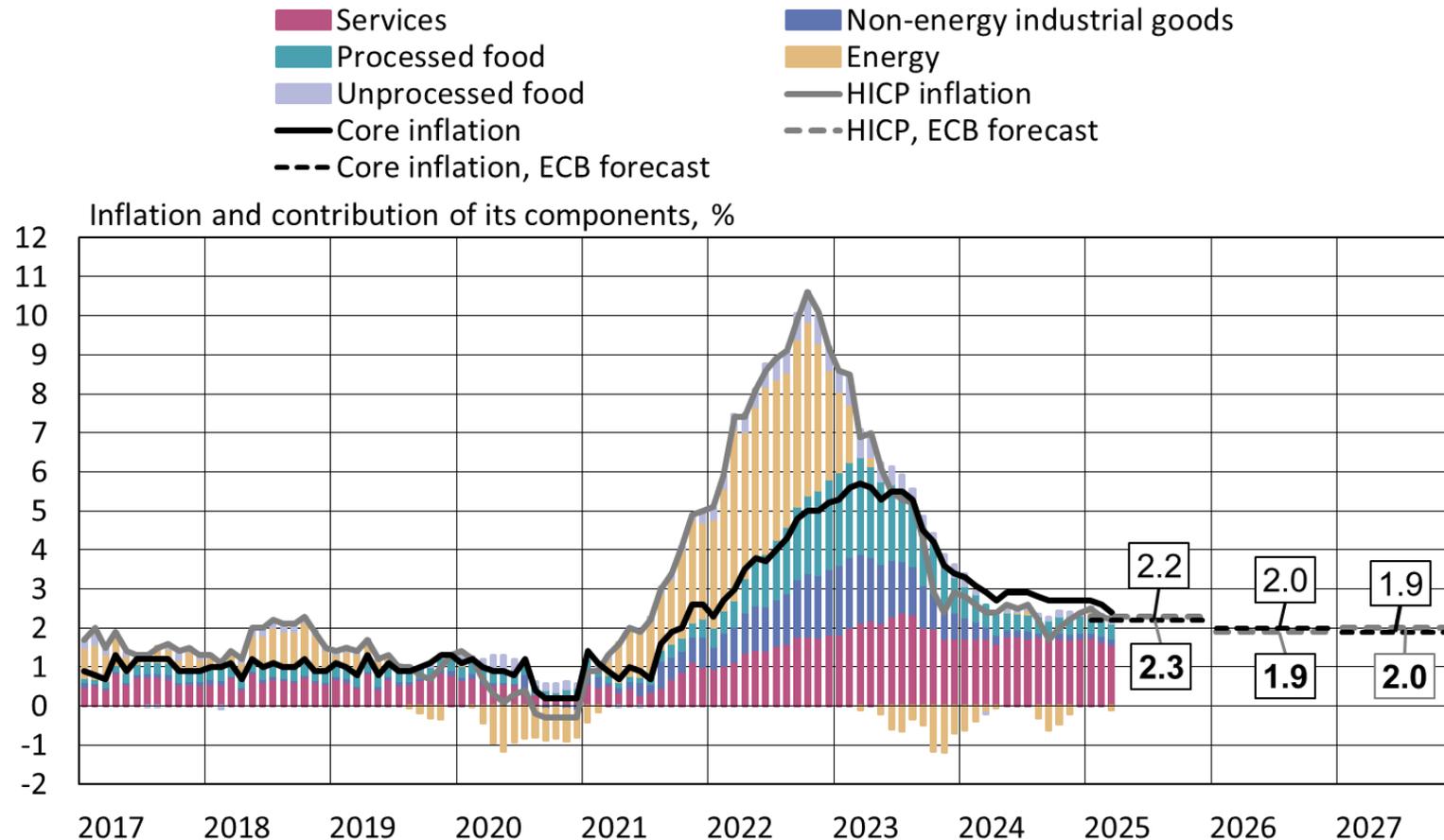
The growth outlook is surrounded by downside risks



Sources: Eurostat and ECB.

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Euro area inflation is stabilizing at the ECB's 2% target – but subject to downside risks



Sources: Eurostat and ECB.

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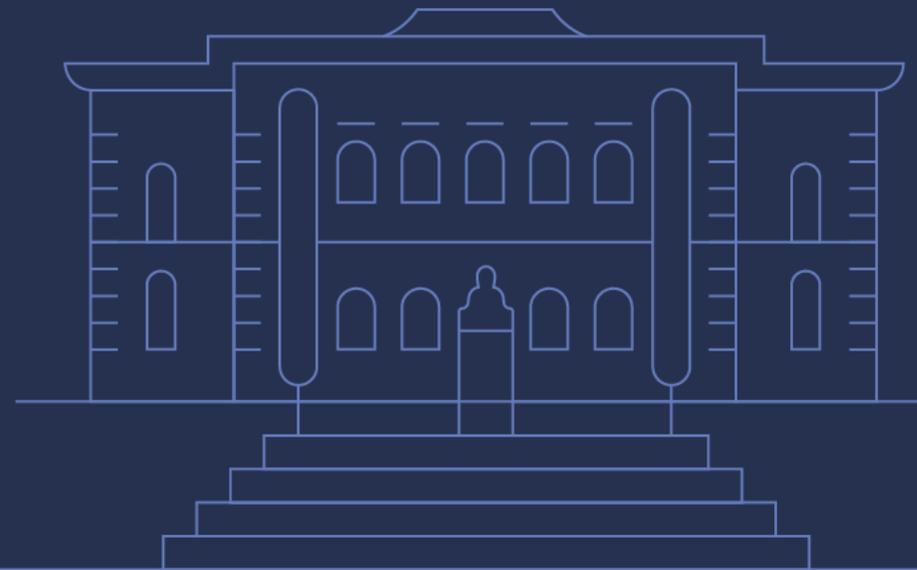
The ECB retains full freedom of action at each meeting

- At its April meeting, the ECB Governing Council reduced the deposit facility rate by 25bps to 2.25%.
- Since June last year, this principal policy rate has been lowered seven times by a total of 1.75 percentage points (4% → 2.25%).
- The ECB is not committed to a particular rate path. Policy rates are set at each meeting based on the latest information and our comprehensive assessment.
- The Governing Council retains full freedom of action, especially in the current times of pervasive uncertainty.
- The Governing Council stands ready to use all necessary tools to maintain price stability and financial stability.



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Securing stability –
in science we trust.



Thank you!