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FINLANDS BANK  
EUROSYSTEMET

# Europe at the crossroads: common defence, re-emerging economy?

The Bank of Finland and Bruegel  
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SUOMEN PANKKI

Governor Olli Rehn  
Bank of Finland

ANDS BANK

# Outline of today's talk

1. Geopolitical landscape is undergoing a seismic shift
2. Europe must urgently build a common defence
3. Re-emergence of the EU economy through innovation, trade, productivity, human capital

# 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 erosion of rules-based system
- Middle East conflict
- Climate goals slipping: on track to +2.5°C to +3.0°C?

## United States

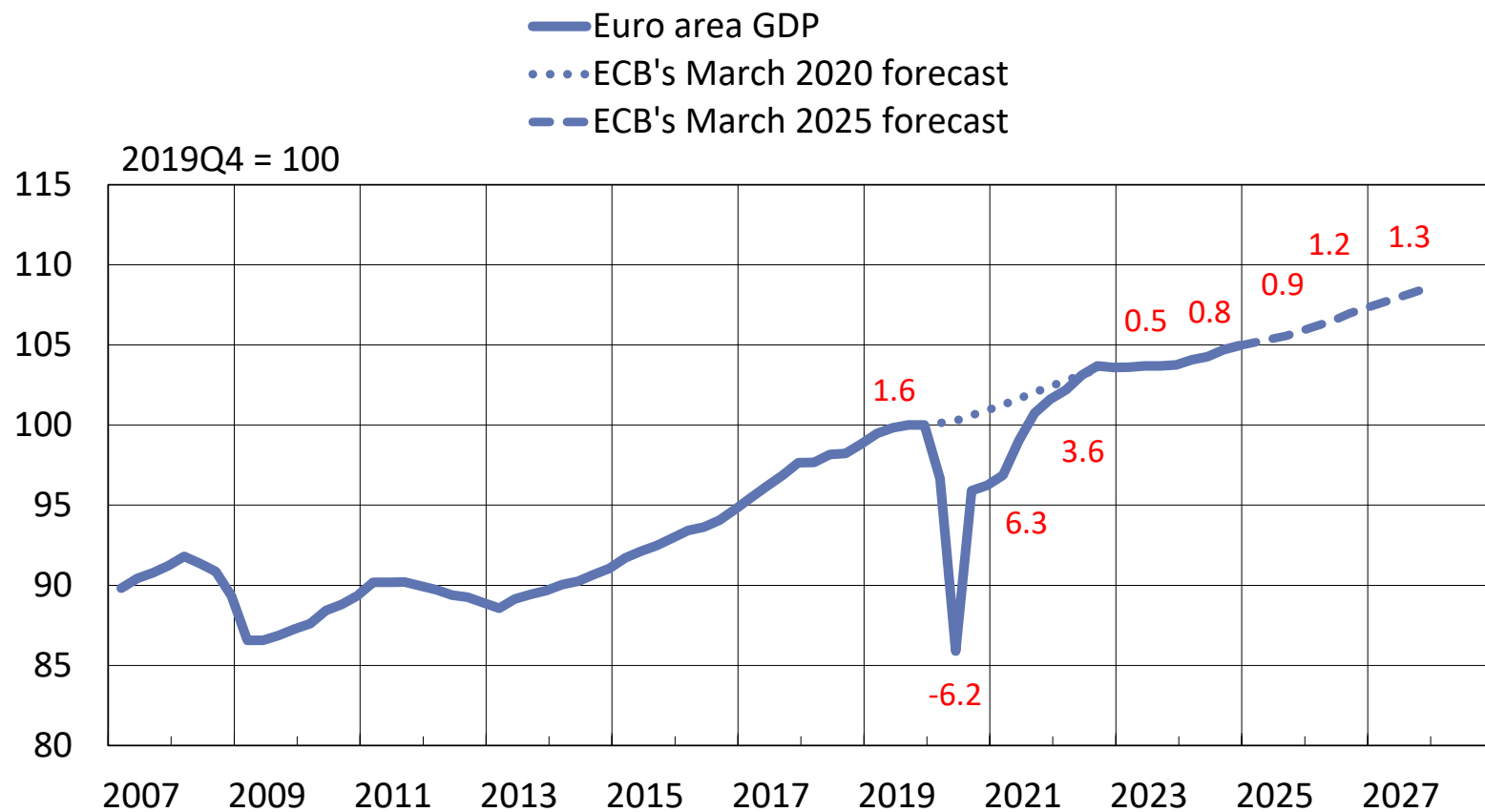
- Trade and fiscal policies?
- Approach to Ukraine, Russia?
- Strategic competition with China: trade, tech, Taiwan?



## 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 outlook

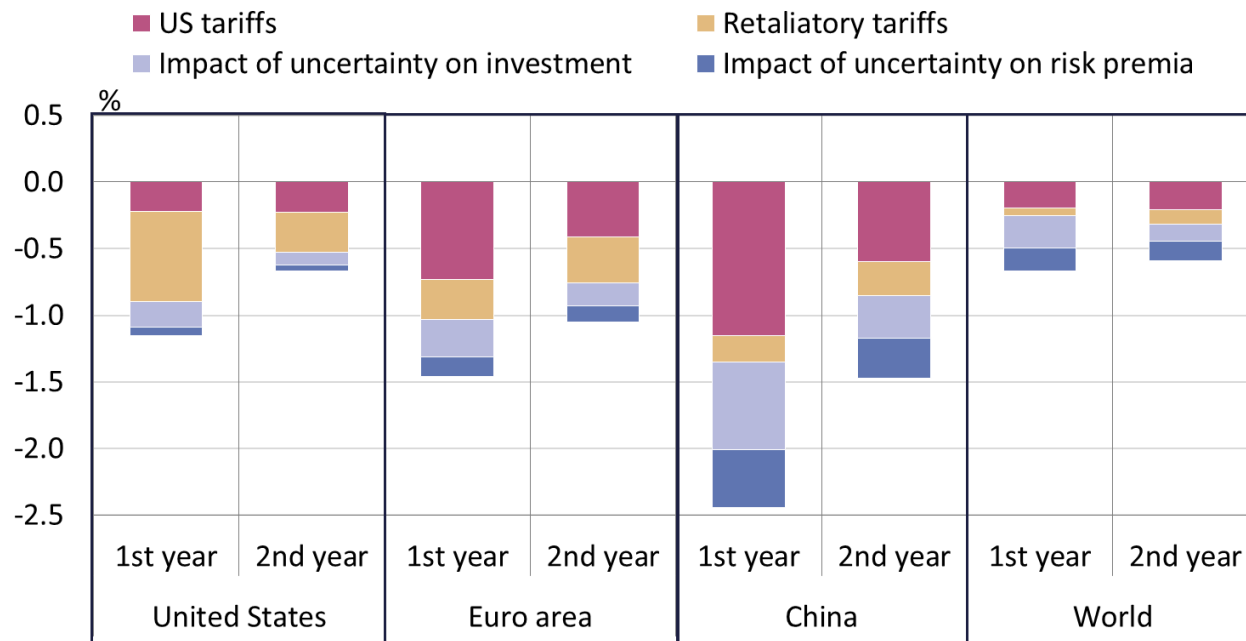


Figures next to the curve are annual growth rates, %.

Sources: Eurostat and ECB.

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

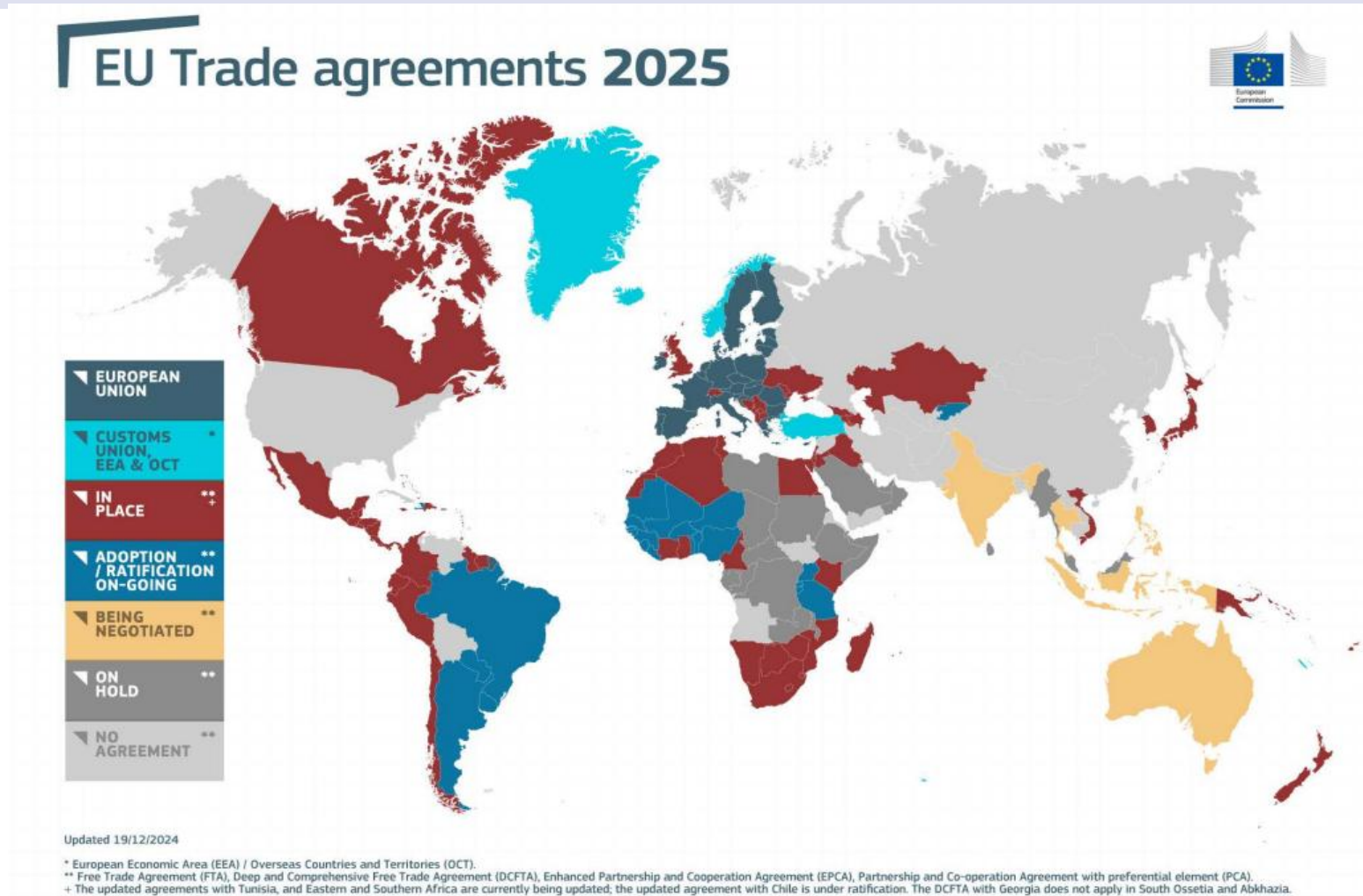


Source: Calculations by the Bank of Finland.  
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- Assumptions: 25% US tariff on all imports from the EU; 20% US tariff on all imports from China; symmetric countermeasures. Increase in uncertainty is taken into account.
- No winners in a trade war. World GDP -0.5% per year. Stronger impact on the EU and China. Countermeasures weaken US companies' market positions.
- Apart from tariffs, uncertainty related to trade disputes will hit investment and raise risk premia.
- Impact on inflation moderate projected moderate.

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



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

- The world is in transition, as it was 30 years ago – but is now moving in reverse gear.
  - All of Europe must invest substantially in security and 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.
- Requires that Europe has the capacity for renewal and stays united. A common response is more critical than before. Stand together and act with purpose.



” *Securing stability,  
in science we trust.*

