Olli Rehn: Europe and Finland – resilience under the shadow of power politics

Speech by Mr Olli Rehn, Governor of the Bank of Finland, at The Bank of Finland's biannual lunch for EU Heads of Mission, Helsinki, 28 November 2025.

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Presentation accompanying the speech

Your Excellencies, Dear Friends,

Hello and a very warm welcome to the Bank of Finland. This lunch seminar at the start of the holiday season is definitely one of the highlights of our calendar. I am delighted to see you here today, and I look forward to the lively discussion that is always an essential part of this gathering.

Slide 2: Power politics is overshadowing the world economy

Not long ago geopolitics was primarily the business of diplomats, international organisations and academia while for central bankers it remained background noise. That era has ended. Geopolitics now dominates every dimension of the economy and international cooperation. Both long-term megatrends and short-term twists and turns in world politics are currently reshaping growth prospects and inflation projections, monetary policy transmission and financial stability.

I shall first discuss geopolitics and trade wars, and their ramifications on Europe and its economy. I will then turn to the outlook for the Finnish economy. While our recovery has been slower than expected, there are some promising developments as well. So, this time at least, I will resist the traditional Finnish saying that "a pessimist is never disappointed".

The brutal realities of power politics are felt most painfully in Ukraine, though of course these realities have ramifications more broadly in Europe. The EU was caught off guard and was forced on to the defensive. Ukraine is fighting not only for its own freedom, but for the security of Europe and the future of liberal democracy and civil liberties.

I trust Europe does not back away when faced with mounting pressure or immense challenges. We really have to get our act together. Together, we must stand with Ukraine until a just and lasting peace is achieved.

Slide 3: Russian economy experiencing stagnation except for warrelated industries

Russia's economy, while remaining sluggish, is still able to finance the Kremlin's war. The country's GDP growth has slowed to 1% this year due to worsening economic imbalances. Sanctions are limiting Russia's financing opportunities and technological possibilities.

According to the recent forecast on the Russian economy by the Bank of Finland Institute for Emerging Economies, BOFIT, economic growth has been largely dependent on war-related industries.

Sanctions have constrained Russia's access to critical goods and components for its military industry. Nevertheless, countries like China continue to export goods to Russia that have been sanctioned by Europe.

However, here it pays to dig a little deeper. A recent research paper from BOFIT shows that China is now charging Russian customers more, sometimes much more, for the sanctioned goods.

The median price increase between 2021 and 2024 for sanctioned goods bought by Russia is almost 90%. For many critical goods, such as ball bearings and piston engines, unit prices have more than doubled between 2021 and 2024. This is one way that sanctions are retarding Russia's capabilities, though not in the manner originally intended.

Slide 4: Despite increased export barriers, China's goods exports have grown exceptionally well and boosted GDP growth

China's exports have proven very resilient despite rising trade barriers. Even Russia has imposed restrictions on certain imports from China, such as cars. Yet China's exports continue to expand. So why is this?

Producer prices have declined due to extensive capacity increases fuelled by subsidies, and the yuan has weakened, boosting competitiveness. As a result, net exports have supported growth at historically strong levels, with the current account surplus reaching almost USD 500 billion in January–September, more than any full-year surplus in China's history. It would be a considerable understatement to just call this a macroeconomic imbalance.

Slide 5: European economy has demonstrated resilience despite higher US tariffs

The current global situation creates a very challenging operating environment for both Europe and Finland. Against this global backdrop, the euro area economy has shown notable resilience.

Growth has stayed positive and exceeded expectations this year, including in the third quarter. Rising real incomes, strong employment and increased defence spending have all provided support.

In the ECB's September forecast, euro area growth was projected to be about 1% in both 2026 and 2027.

Slide 6. Euro area inflation currently at around the ECB's 2% target

The good news is that euro area inflation has this year stabilized at around the ECB's 2% target.

At last month's meeting of the ECB Governing Council, we decided to keep the monetary policy rate unchanged at 2%. Our next rate decision will take place just before Christmas, on 18 December.

When estimating the future path of GDP growth and inflation, there are now so many uncertainties and unknowns that it's a very tough task indeed. This can be summed up neatly with a phrase coined by our ski jumper legend and wordsmith Matti Nykänen: "It's really **sixty-fifty** how it will turn out". In other words, there are both downward and upward risks to growth and inflation, and the balance of these could go either way.

Given this situation, it is reasonable for the Governing Council to wait for our comprehensive economic outlook in December.

I should like to add here that in the current environment of uncertainty, it is essential that we do not lose sight of two things: firstly, the need for empirical evidence, taking a data dependent approach; and secondly, maintaining the commitment to our monetary policy strategy. If there are major deviations from our target over the medium term, then our strategy guides us to react – and the critical thing is to monitor if inflation expectations have stayed well anchored or not.

In any case, we will continue to make our decisions meeting by meeting, without committing to any interest rate path, thus maintaining full freedom of action in our decision-making. Under the current clouds of uncertainty, monetary policy-making is often as much art as it is science.

Slide 7: AI boom is fuelling market valuations

Beyond the confines of monetary policy, the ECB also supports stable and sustainable economic development in Europe.

As First Vice-Chair of the European Systemic Risk Board, I share the concerns about elevated stock market valuations driven by the AI boom in the United States. Alongside the IMF we have stated that the possible overheating of the stock market and its rapid correction could be a considerable risk. Market valuations now are quite high compared to the pace of growth in the real economy and corporate earnings.

Slide 8: Capital buffers are critical for financial system resilience

All investors should naturally be cautious, but in the mitigation of systemic risks, strong capital buffers are crucial. Stress tests confirm that European banks – not least Nordic banks – are resilient even in severe scenarios. Meanwhile, the EU's Savings and Investment Union initiative aims to mobilise Europe's substantial savings for productive investment and to diversify financing beyond the banking sector.

Some diversification is already taking place – in the form of an expansion and diversification of the non-bank financial system. Regulators are now paying more attention to this non-bank spectrum than before. It includes investment and pension funds, insurance and finance companies, and companies specialising in securities trading. New players in the crypto markets also belong to this group.

In Europe, the importance of non-bank entities in lending to businesses and households will continue to grow and it is indeed part and parcel of the Savings and Investment Union. At the same time, banks are increasingly providing financing to non-bank entities, which increases the financial markets' interconnectedness with the everyday regulated banking system.

Slide 9: ECB preparing proposals to simplify regulation – High-Level Task Force on Simplification

One of Mario Draghi's key recommendations for improving competitiveness relates to the simplification of regulation. In line with this, the ECB established earlier this year a High-Level Task Force on Simplification, in which I'm serving as a member.

I am confident that our group's proposals will help simplify regulation where there is an undeniable need – how to simplify the overly burdensome regulatory load on banks, lighten reporting requirements and streamline banking supervision.

At the same time, it is essential not to throw the baby out with the bathwater. Banks' crisis and risk resilience must not be jeopardized.

But no more on that now, as we have agreed to communicate only once the report is finalized, which is before Christmas anyway.

Slide 10: IMF: The recovery of the Finnish economy has been slow but is expected to accelerate next year

Turning now to Finland, recovery has lagged behind the euro area, slowed by weak employment and fiscal consolidation. However, recent data show signs of improvement, especially in industrial production.

Many recent investments in Finland are linked either to critical technologies or infrastructure. A month ago, Nokia announced that NVIDIA will invest one billion dollars in Nokia to accelerate next generation AI innovation and to lead the transition from 5G to 6G. The number of new data centres and data centre investment projects in Finland has grown considerably, benefitting from relatively low energy prices – and with low emissions in the production of that energy.

Finland has been building Arctic expertise for decades. This 'snow-how' is now coming to the forefront. The icebreaker deal between Finland, the US and Canada is estimated to be worth over 5 billion euros. Finland also possesses other critical expertise for Arctic regions: satellites, weather observation technology and energy technology, in addition to the 5G and 6G network expertise.

A breath of fresh air – or appropriately slashy snow – was brought to Helsinki last week when the city hosted one of the world's largest growth company and technology events, Slush. Creativity, innovation and new business opportunities all wrapped up in one great event.

Last month I invited members of the Finnish Startup Community to the Bank of Finland and we had a very useful and interesting discussion. Entrepreneurs and investors have reported that growth has accelerated and new startups are being founded, especially in the technology and software sectors. According to recent statistics, investments in Finnish growth companies have begun to rise again after the 2023 dip and are now close to the record level of 2022 (EUR 1.66 billion). Domestic venture capital investments are important not only in the early stages of companies but also later during scaling up and internationalisation.

Slide 11: A parliamentary pact on fiscal rules was reached

Finland's public finances have been under severe strain recently. This year the debt-to-GDP ratio is expected to rise to 85%, and to over 90% by 2027. It is likely that Finland will end up in the EDP.

Meanwhile it is encouraging that Parliament, following the Swedish model, has identified a common ambition to strengthen debt sustainability. This demonstrates that even in difficult circumstances, Finland can make responsible, forward-looking decisions together.

Slide 12: Europe's triple test

Going forward, Europe is facing major economic challenges – **triple test**. In a nutshell, strategic investment in **defence, decarbonisation and dynamism** can revitalise Europe's economic future.

Russia's war in Ukraine and the US foreign policy shift have made it clear that Europe must take greater responsibility for its own defence. In the short term, the best way to strengthen European security is to support Ukraine. At the same time, national and common European projects must be launched to strengthen the EU's own common defence capability.

The green transition is not a luxury – it is Europe's only viable energy strategy. Unlike the US, we lack (cheap) domestic fossil fuels. The path to energy security lies in renewables, clean tech and efficiency.

We are reaching the inflection point in green transition. Decarbonisation is a chance for Europe to lead in clean tech and secure low-cost energy.

It is not putting the brakes on growth: experience shows we can reduce emissions and grow at the same time. Developments over recent decades show that the green transition and GDP growth are not mutually exclusive goals.

Long-term productivity gains are real: more efficient systems, new markets and stronger energy independence. For the EU, a net importer of fossil fuels, this is a win-win. It is a strategic imperative.

Moreover, investment in common defence and in the green and digital transitions offers Europe a chance to revitalise productivity growth – but only if we do the right things.

Unlike the US, Europe lacks deep capital markets and a unified innovation system. Defence spending won't drive growth unless it supports R&D and leverages private sector capacity.

Europe is also underperforming as to channelling savings into investment. There are currently up to EUR 10 trillion in bank accounts, which represents a vast potential to be mobilised more productively for equity investment, offering higher return for European investors.

The momentum for the Savings and Investment Union initiative is increasing and should now be accelerated by setting a clear, ambitious timeline for its completion, such as 1 January 2028.

Above all, Europe must rediscover its traditional strength: talented people. We have top universities, skilled workers and a history of academic freedom. The US has relied heavily on imported talent. If that inflow is weakening, Europe must grasp this opportunity to lead again.

But talent won't come here by accident. We need sound immigration policy, investment in education, and a culture that values research and risk-taking. Human capital is the foundation of long-term growth.

Slide 13: Europe under pressure, Europe united

In short: if Europe invests smartly in defence, decarbonisation and human capital, it can reignite its economic dynamism.

Let me end with this: Europe's resilience comes not just from policies or institutions, but from how it works. The EU has always advanced by tackling real problems together, step by step.

From coal and steel, to the single market, to the euro – and now to defence, the green transition and deeper capital markets – Europe has moved forward not through grand visions alone, but through concrete actions, steady commitment and shared solutions.

That logic matters just as much today. When we strengthen Europe's common defence, push the green transition and invest in industrial competitiveness, we're not solving isolated issues. We are thus reinforcing the fabric of Europe itself.

Before opening the floor for questions – I almost forgot one thing: Following the encouragement of friends and colleagues from various corners of Europe, and the support of the Finnish Government, I am standing as a candidate for Vice-President of the European Central Bank.

Europe is, for me, a rational passion – a commitment shaped by experience and necessity. In an increasingly unpredictable world, small states have only one viable path: unity. The Union is our strategic shield and democratic anchor. By standing together, we protect our security, uphold our values, and secure a future welfare of our citizens.

Thank you very much for your attention! I look forward to your questions and comments.