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EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Macroeconomic policy in times of global political upheaval

Bank of Finland and CEPR Joint Conference on
Frontiers of Monetary Economics in the 21st century
13 May 2025

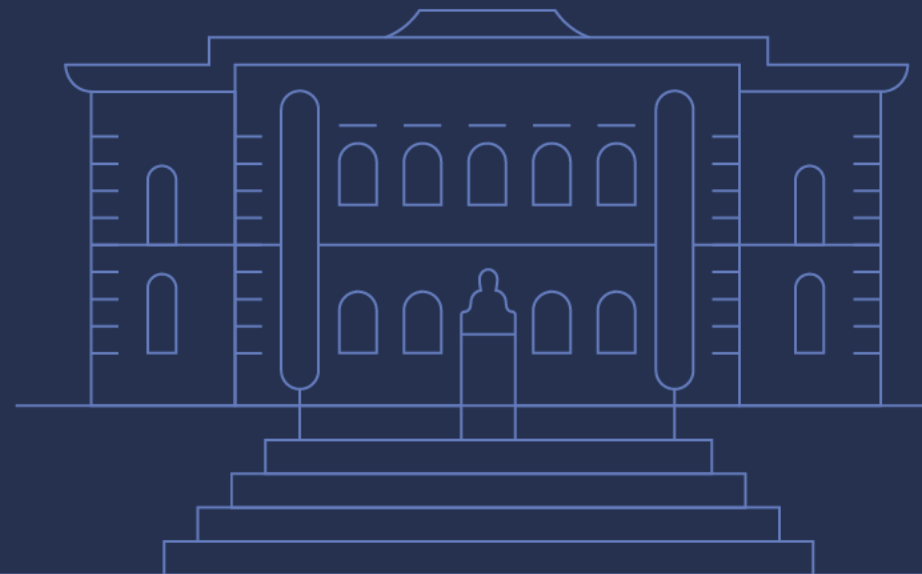
SUOMEN PANKKI

Governor Olli Rehn
Bank of Finland

ANDS BANK



” *Securing stability,
in science we trust.*



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?



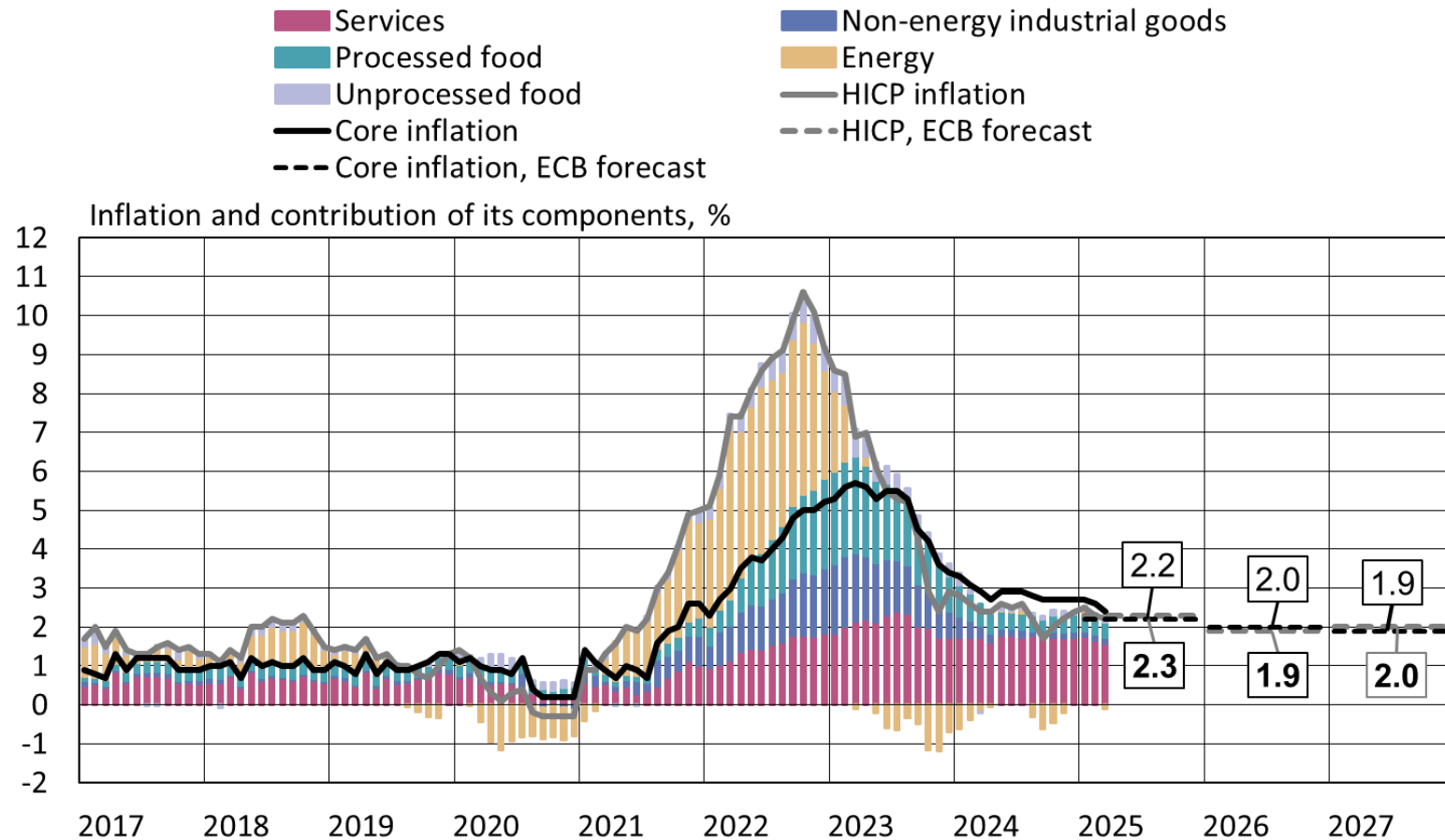
Asia

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

Outline of today's talk

1. Lessons for monetary policy from the last inflationary episode
2. Europe must urgently build a common defence
3. Re-emergence of the EU economy through innovation and productivity growth

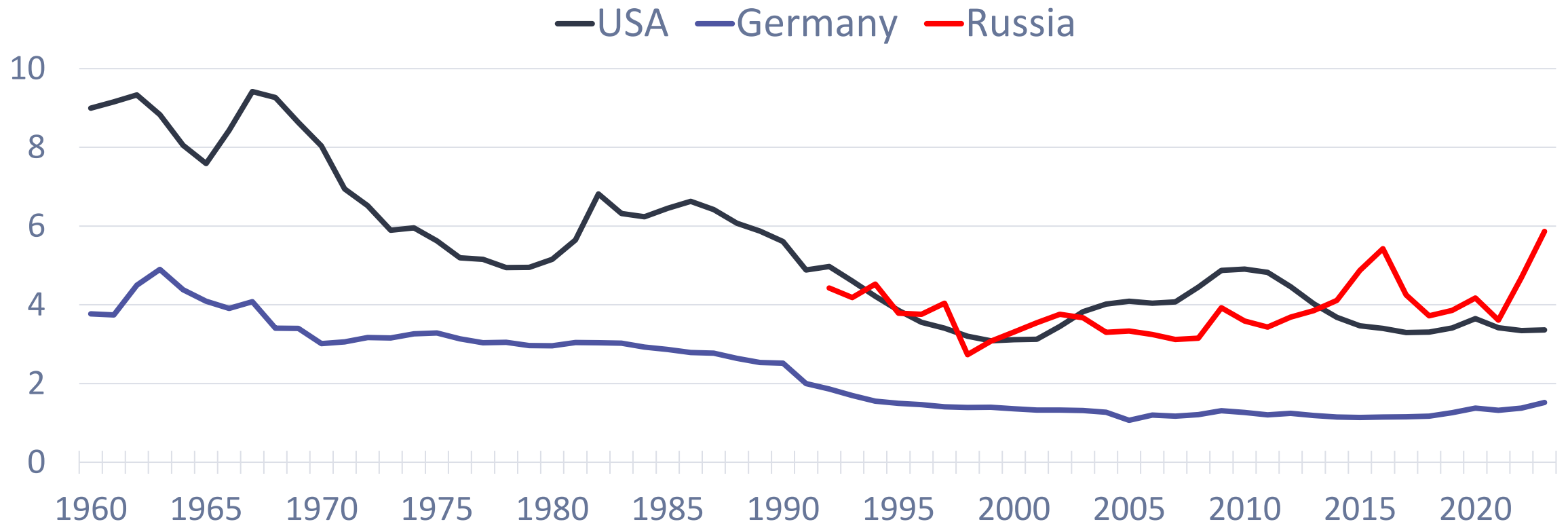
Euro area inflation is stabilizing at the ECB's 2% target



Sources: Eurostat and ECB.

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Military spending in Europe has gone down and has stayed below that in USA and Russia



Data: Military spending as percent of GDP, 1960-2023

Source: Stockholm International Peace Research Institute

Europe needs to invest in own security given the challenge from the world of geopolitics

- 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 must be made in an environment where public finances are under pressure.
- Currently European military production and spending is not only too small, but largely scattered and uncoordinated.
- Common European solutions are needed to improve efficiency of spending and create a genuine European-level defence industry.

Europe's productivity has been slowing down

- European productivity has been slowing down amid ageing population.
- Europe must find ways to increase productivity. The single market must be finalised and investment made in human capital and research.
- The military sector has been historically a source of breakthrough innovations, which is an opportunity to stimulate long-term growth. If done efficiently, it may help Europe's economy.
- This 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.

Conclusions

- "500 million Europeans are asking 300 million Americans to protect them from 140 million Russians" – this paradox must end.
- Europe must take responsibility for its own external security in today's harsh geopolitical environment.
- We need to reinvigorate Europe's industrial base, reinforce technological leadership, and enhance productivity.
- Crises create opportunities – now is the time to build a more resilient and competitive Europe.



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