

SUOMEN PANKKI  
EUROJÄRJESTELMÄ



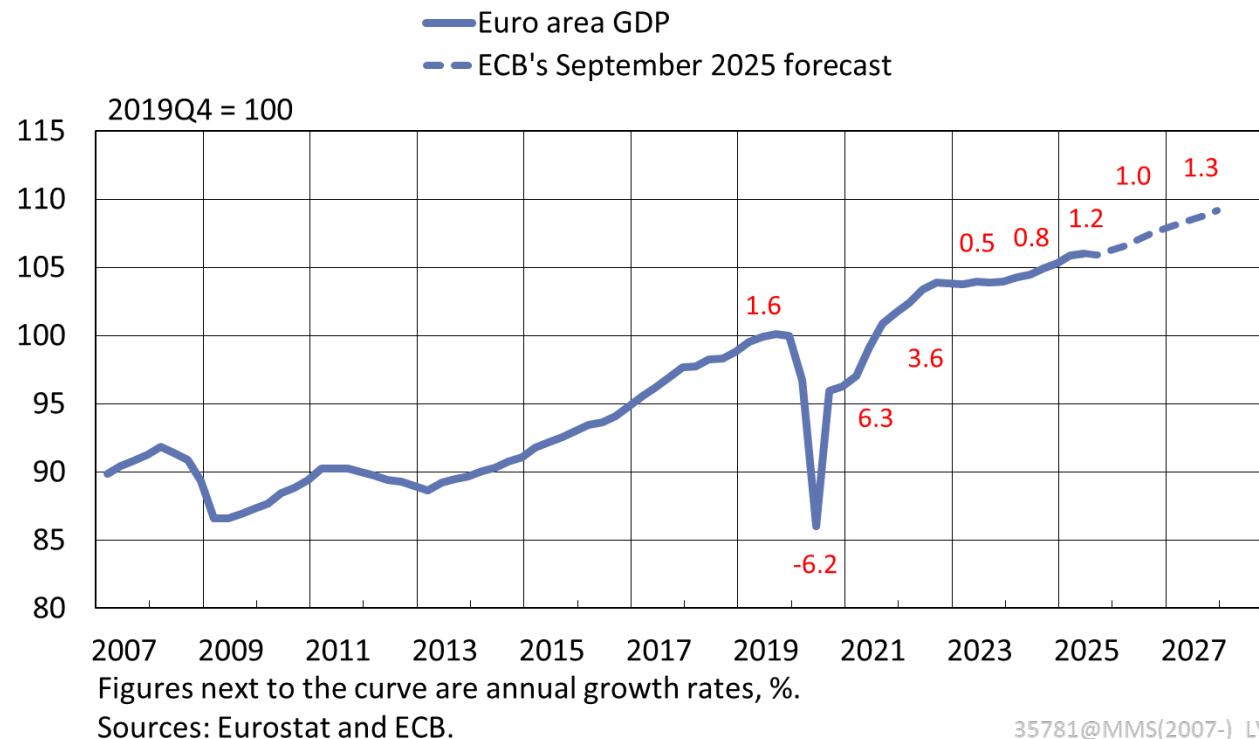
FINLANDS BANK  
EUROSYSTEMET

# Euro area inflation at target – Growth slow under pressure of geopolitics and tariffs

Bank of Finland Bulletin press briefing  
12 September 2025

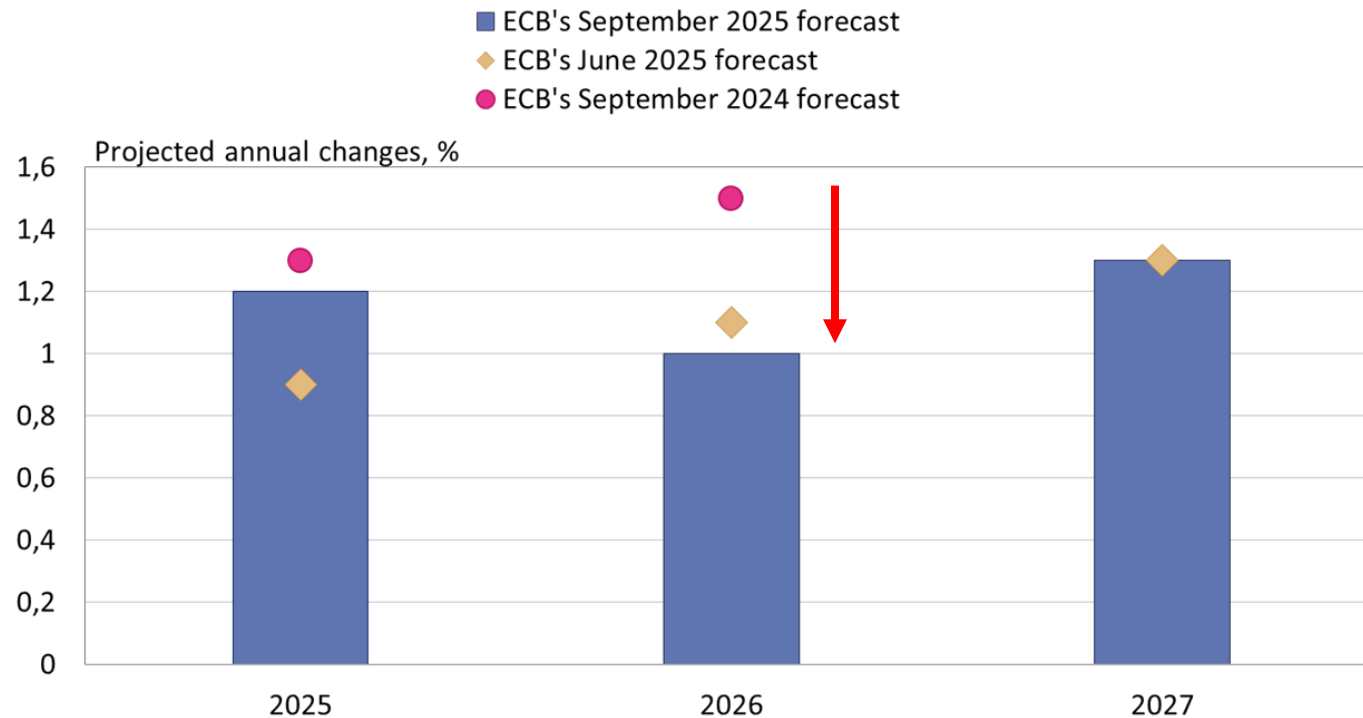
Governor Olli Rehn  
Bank of Finland

# Growth in euro area economy picking up slowly despite tariffs



- GDP growth in first part of the year higher than expected, but impact partly transient.
- According to the ECB's September forecast, the euro area economy will grow at a steady, slow pace as purchasing power is bolstered by rising household real incomes.
- The impact of the higher tariffs on the economic outlook remains uncertain.

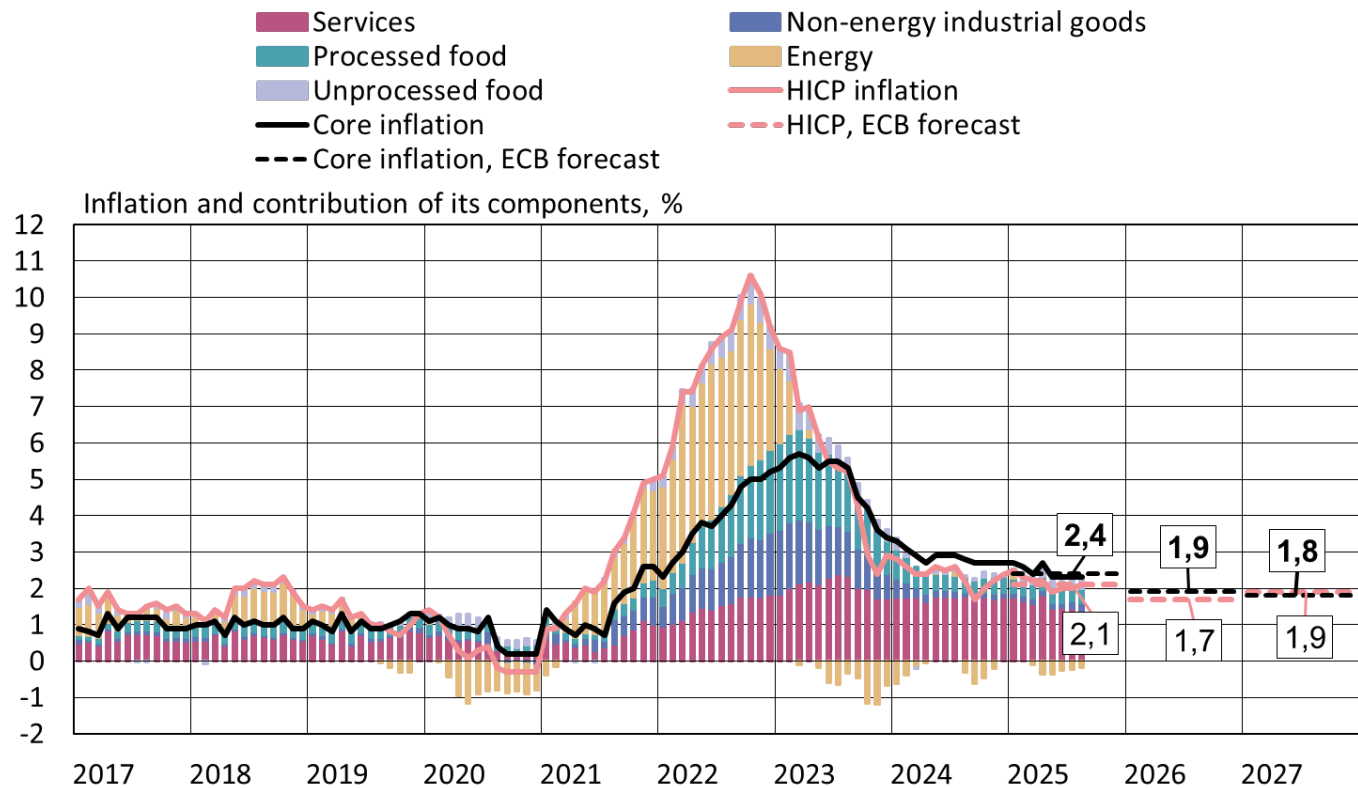
# Entry into force of higher US import tariffs has weakened growth projections for the euro area



Sources: ECB and Eurosystem projections.  
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# Euro area inflation currently at around the ECB's 2% medium-term target

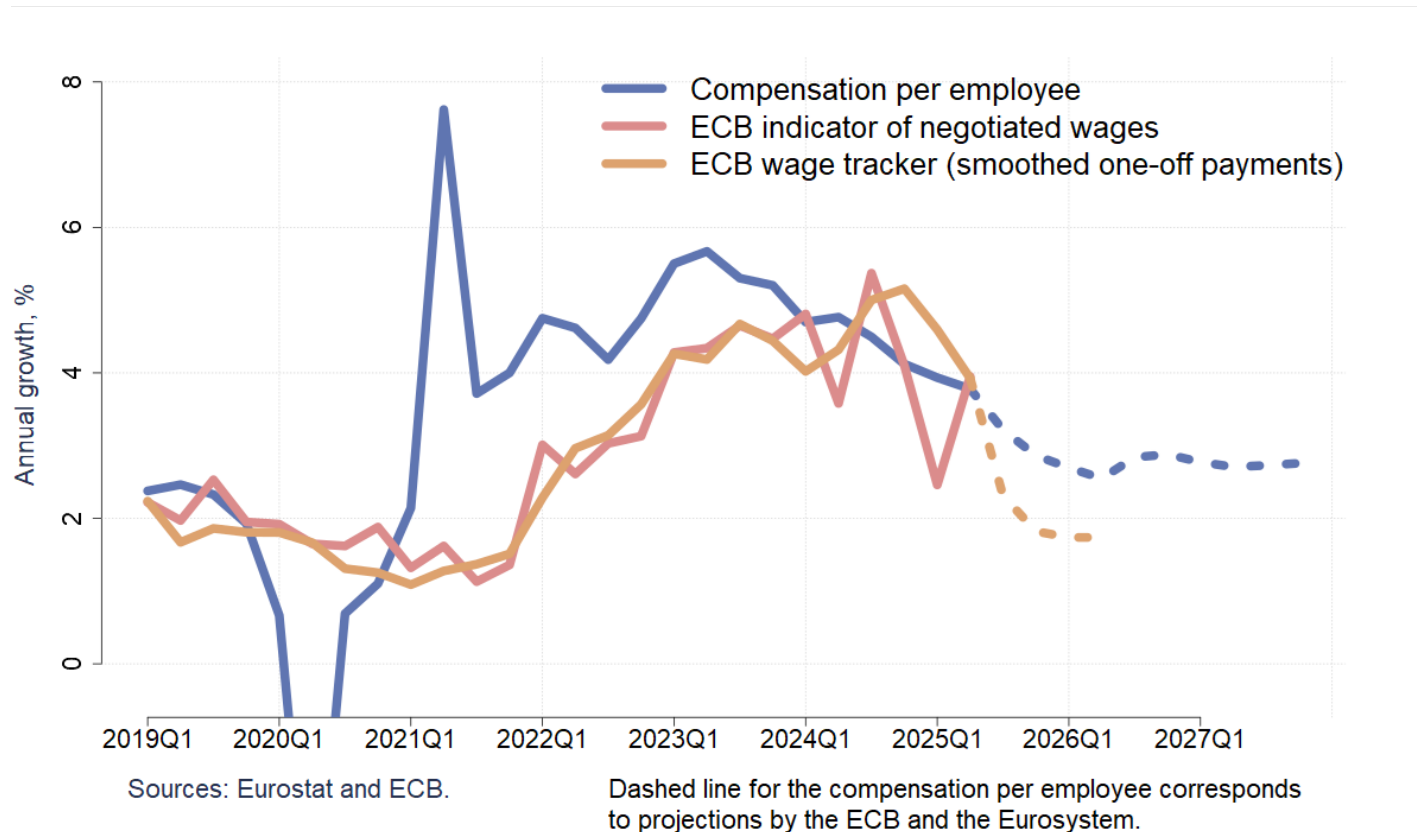


Sources: Eurostat and ECB.

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- Annual inflation in August (HICP) = 2.1%
- Inflation is projected to stabilise around the ECB's 2% target.
- In 2026-2027, inflation will be just below 2%
  - Subdued growth
  - Fall in services inflation and wage inflation
  - Exchange rate effects.
- Inflation expectations are nevertheless well anchored.
- Impacts of the trade war on inflation are highly uncertain.

# Euro area wage inflation projected to slow in second half of the year, pointing to a slowing of future services inflation

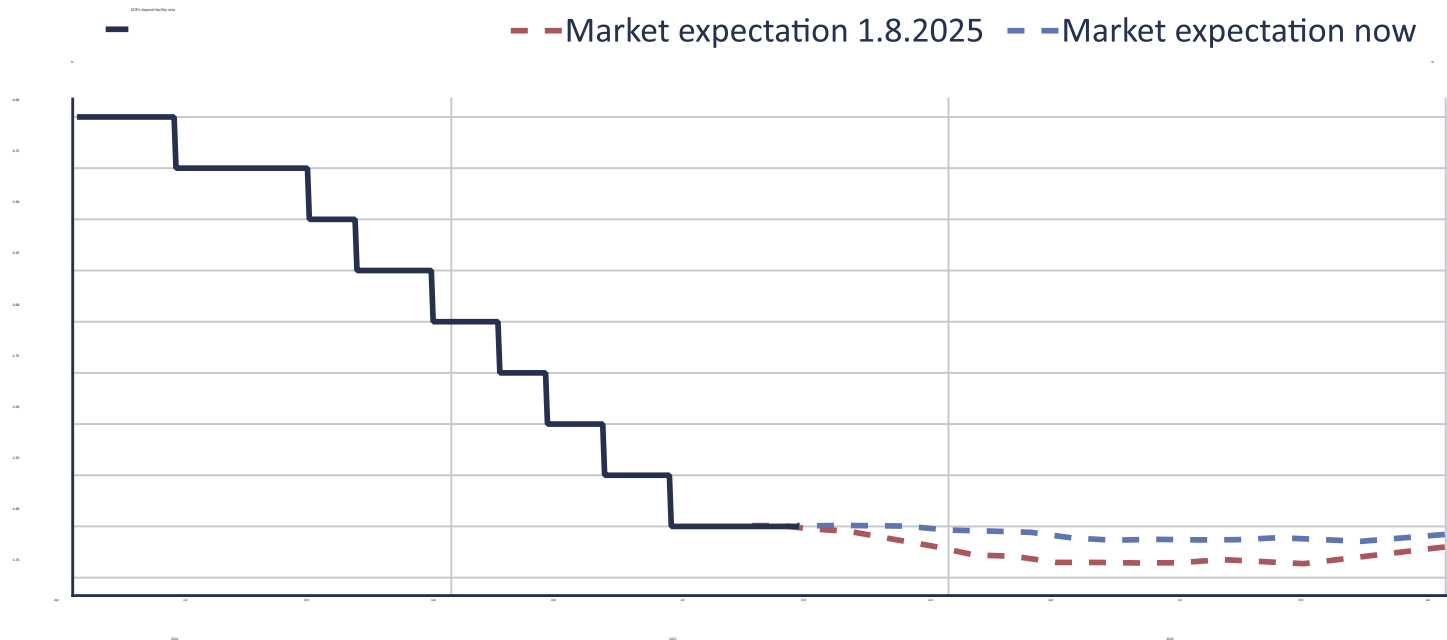


- The Eurosystem has developed new indicators for monitoring wage developments.
- According to Bank of Finland analysis, the ECB wage tracker is a good indicator of future services inflation.
- The wage tracker predicts that wage inflation will slow significantly in the second half of the year, which also suggests that services inflation will continue to slow.



# ECB Governing Council meeting decision of 11 September: Main policy rate unchanged at 2.0%

Market expectation for ECB's deposit facility rate\*

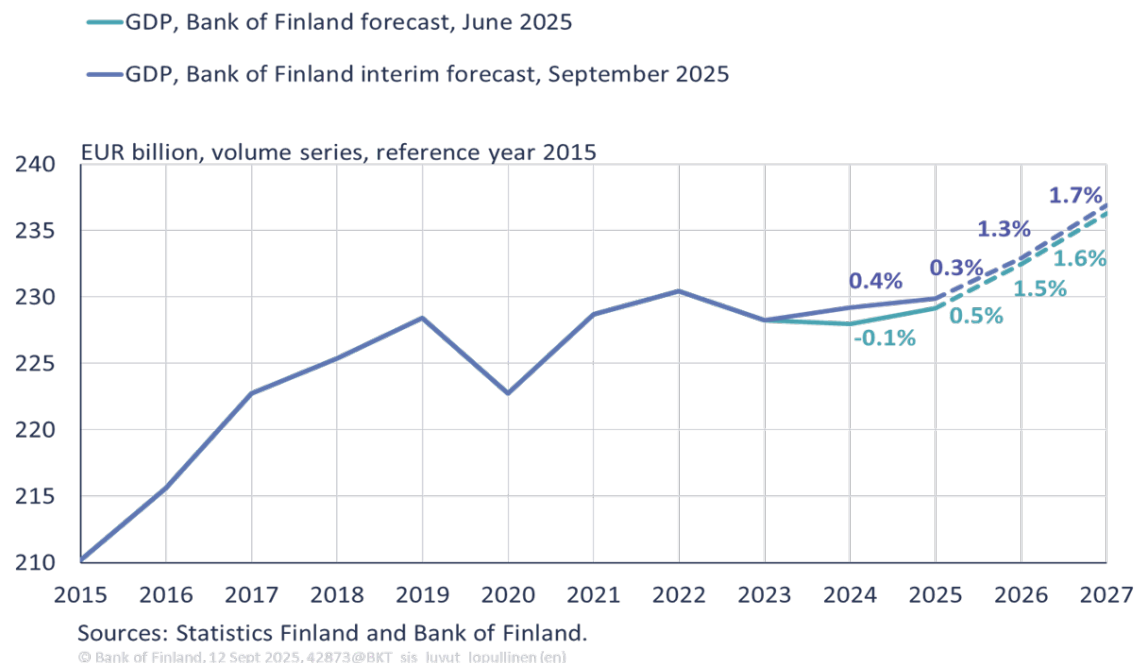


Source: ECB, Bloomberg and Bank of Finland's calculations.

\*Based on €STR OIS rates and an assumption of constant 8 bps spread between ECB's deposit rate and €

- Deposit facility rate unchanged at 2.0%.
- Inflation is currently at target and uncertainty over the inflation and growth outlook is high.
- Decisions will be taken meeting by meeting, on the basis of incoming data and analysis and an overall assessment.
- The ECB Governing Council is determined to ensure that inflation stabilises at its 2% target in the medium term.

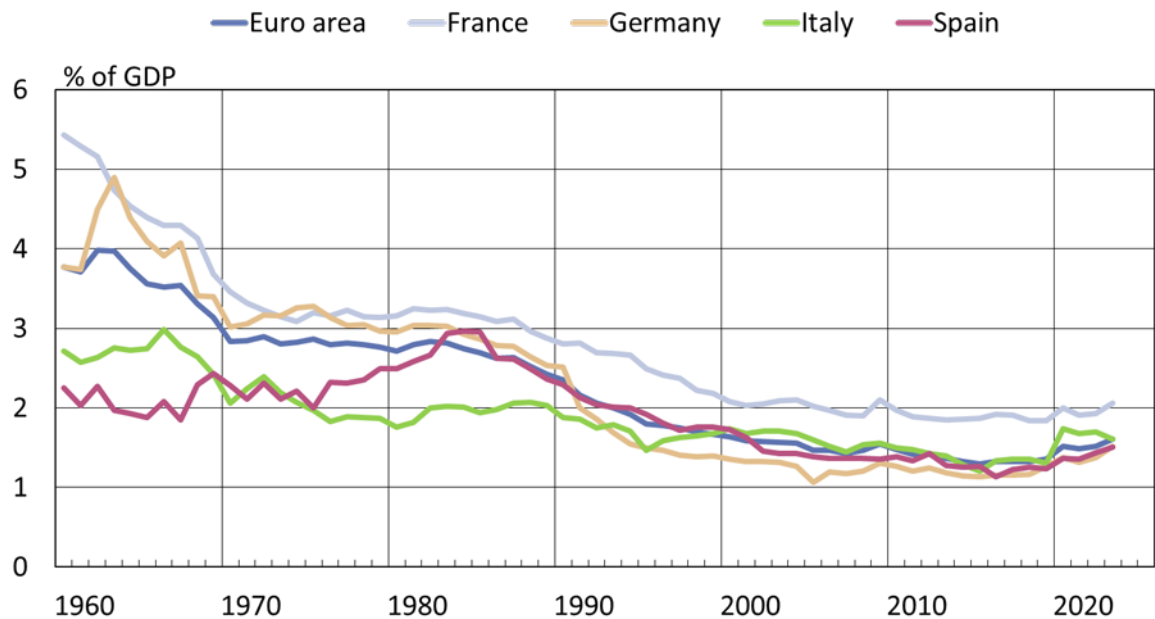
# Finland's economy making a faltering return to growth



- The dip in 2024 was smaller than suggested by initial data – 2025 started from a slightly better situation.
- The first part of the year was weak, however, but there are signs of a pick-up in growth.
- Household confidence and consumption are still subdued; signs of improvement in the outlook for companies.
- Growth is projected to pick up in 2026.

# Higher defence spending will support euro area growth slightly in the immediate years ahead – most of the impact in the forecast years will be in 2026-2027

Defence spending



Source: World Bank.

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- Strengthening of defence capabilities is necessary – both national and European financing solutions are needed.
  - In practice, national financing most significant
  - EU financial instrument SAFE (EUR 150 bn) supports procurement from the EU.
- Growth effects depend on the scale and detail of the expenditure – which are still largely undecided.
  - Also uncertainty about the multiplier effect
  - Allocation of the spending to domestic production and R&D activity would strengthen the growth impact.



# Europe's challenge: security and productivity

- Euro area inflation is at target and growth has held on, but geopolitics and the trade war are weighing on the outlook for growth.
  - Inflation is projected to remain at around the 2% target. The ECB is carefully monitoring developments in growth and inflation and stands ready to respond.
  - Finland's GDP growth will start to strengthen gradually from 2026.
    - Labour market situation remains difficult; unemployment rate is over 9%.
  - The challenge for Finland and Europe as a whole is – in addition to common defence – to strengthen the foundations for sustainable growth and productivity.
- Requires that both Europe and Finland have the capacity for renewal and remain united.



” **Vakauden puolesta,  
tutkitun tiedon pohjalta.**

*Securing stability,  
in science we trust.*

