

SUOMEN PANKKI
EUROJÄRJESTELMÄ



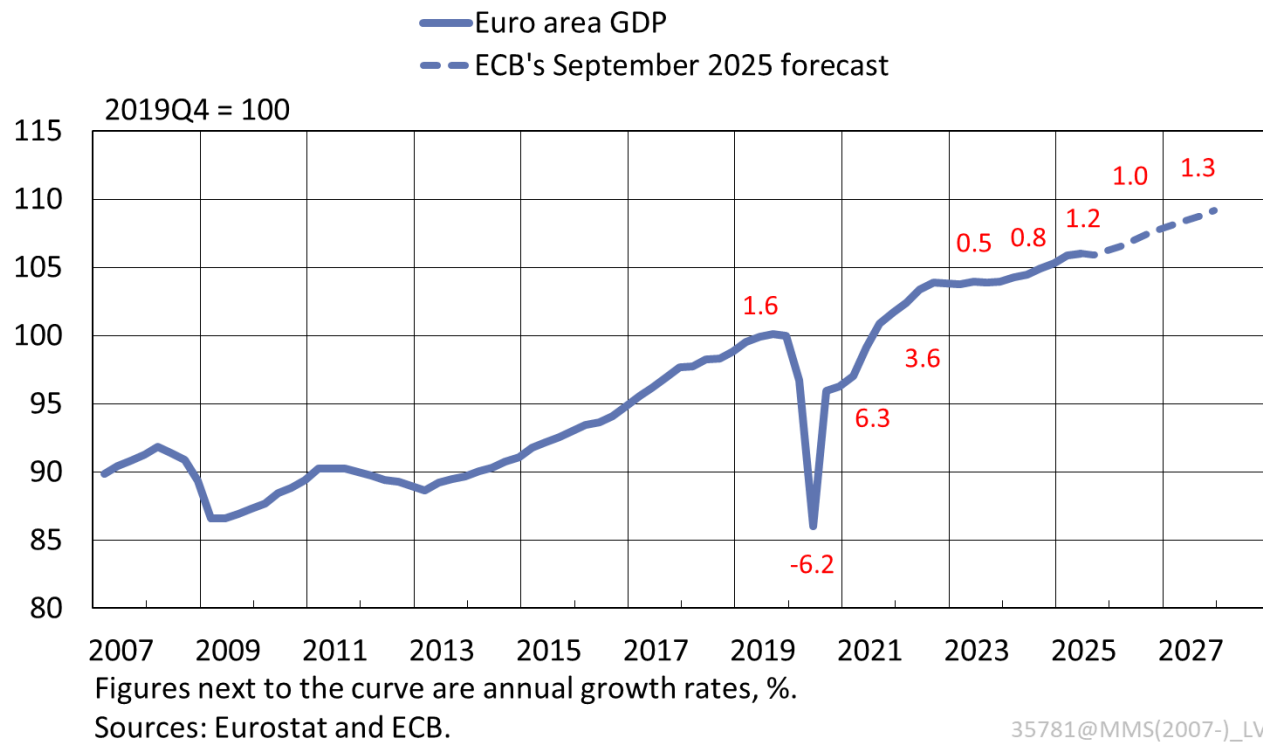
FINLANDS BANK
EUROSYSTEMET

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

Bank of Finland Bulletin press briefing
12 September 2025

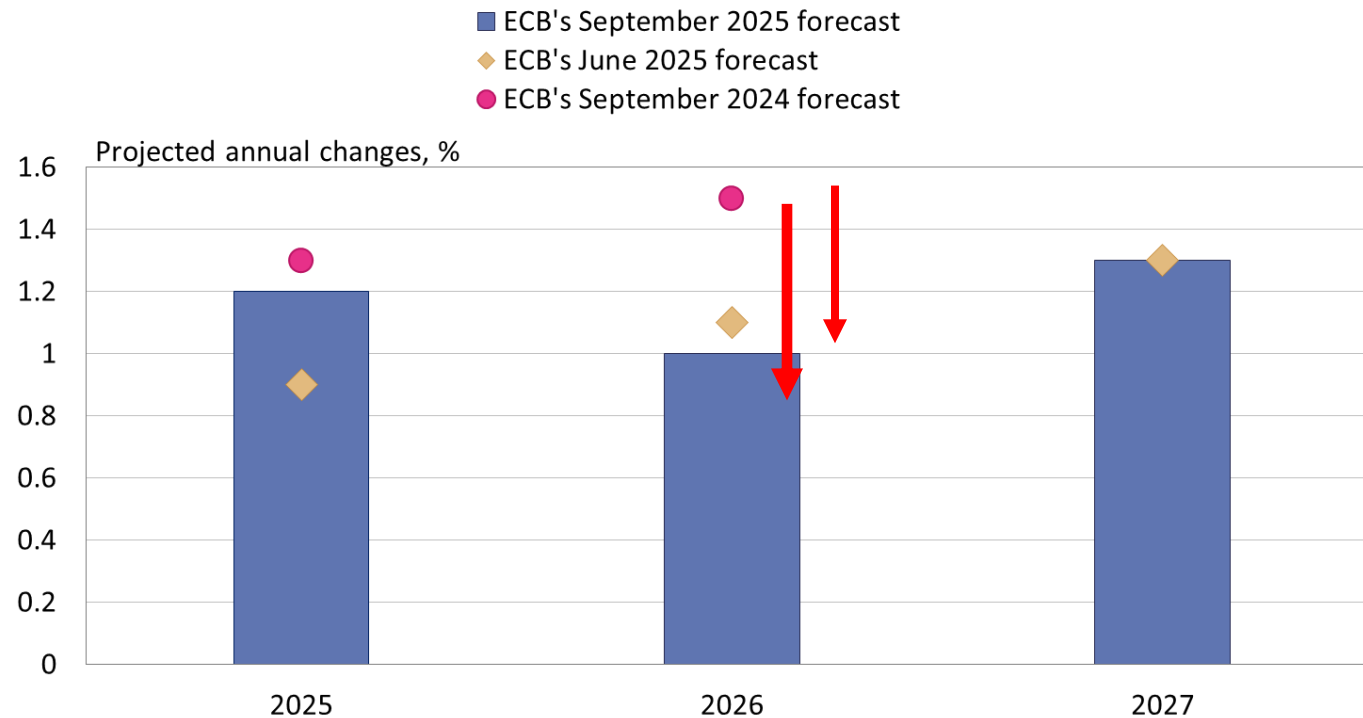
Governor Olli Rehn
Bank of Finland

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.

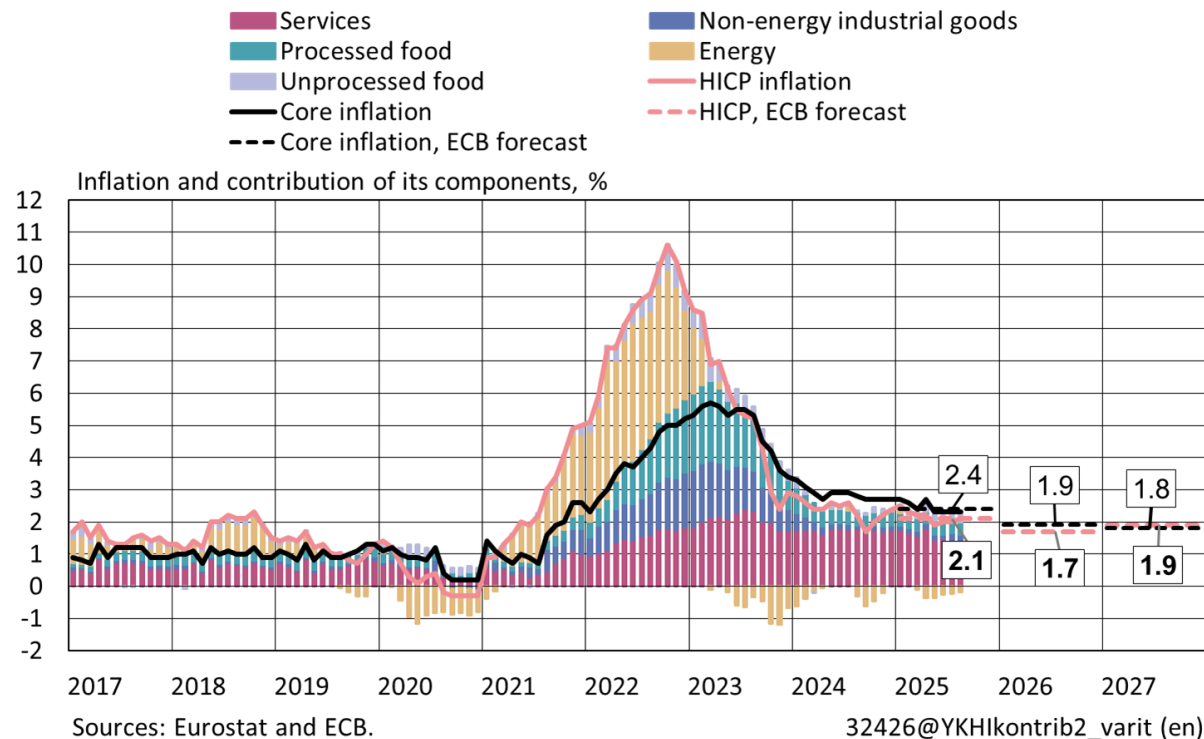
Entry into force of higher US import tariffs has weakened growth projections for the euro area



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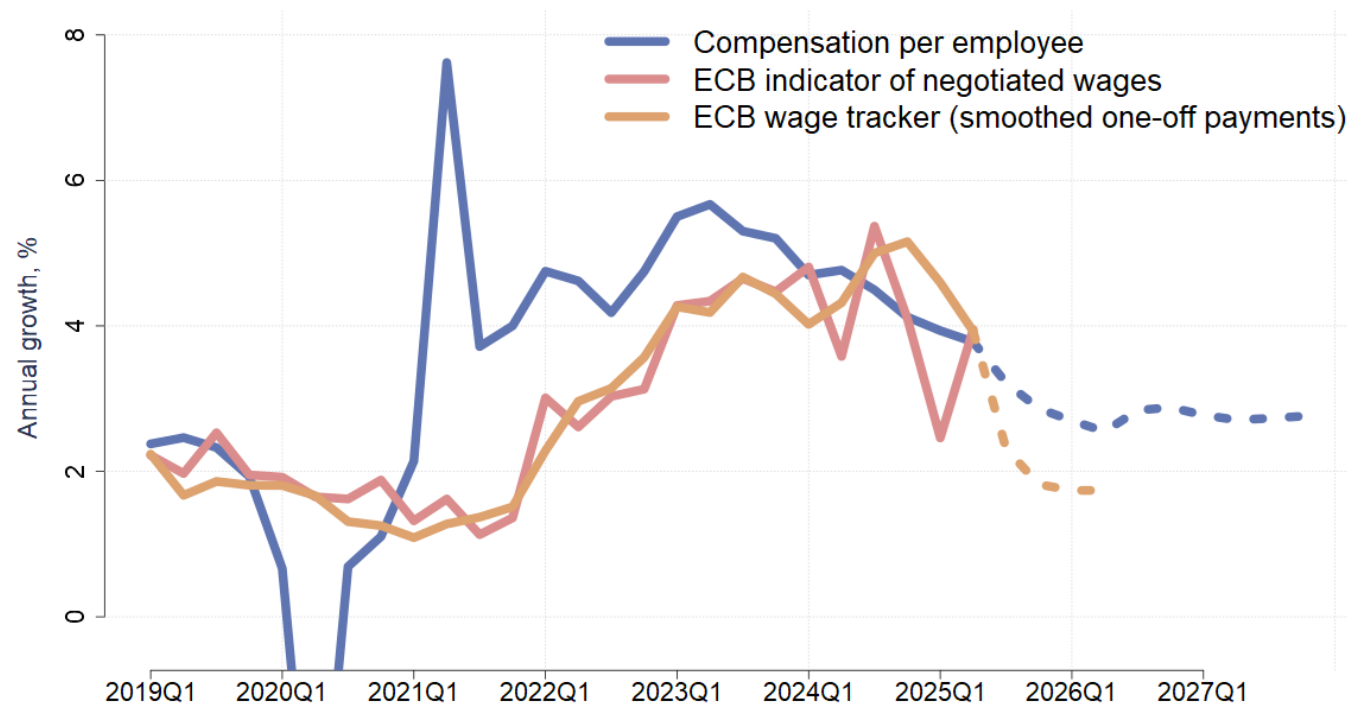
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Euro area inflation currently at around the ECB's 2% medium-term target



- 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



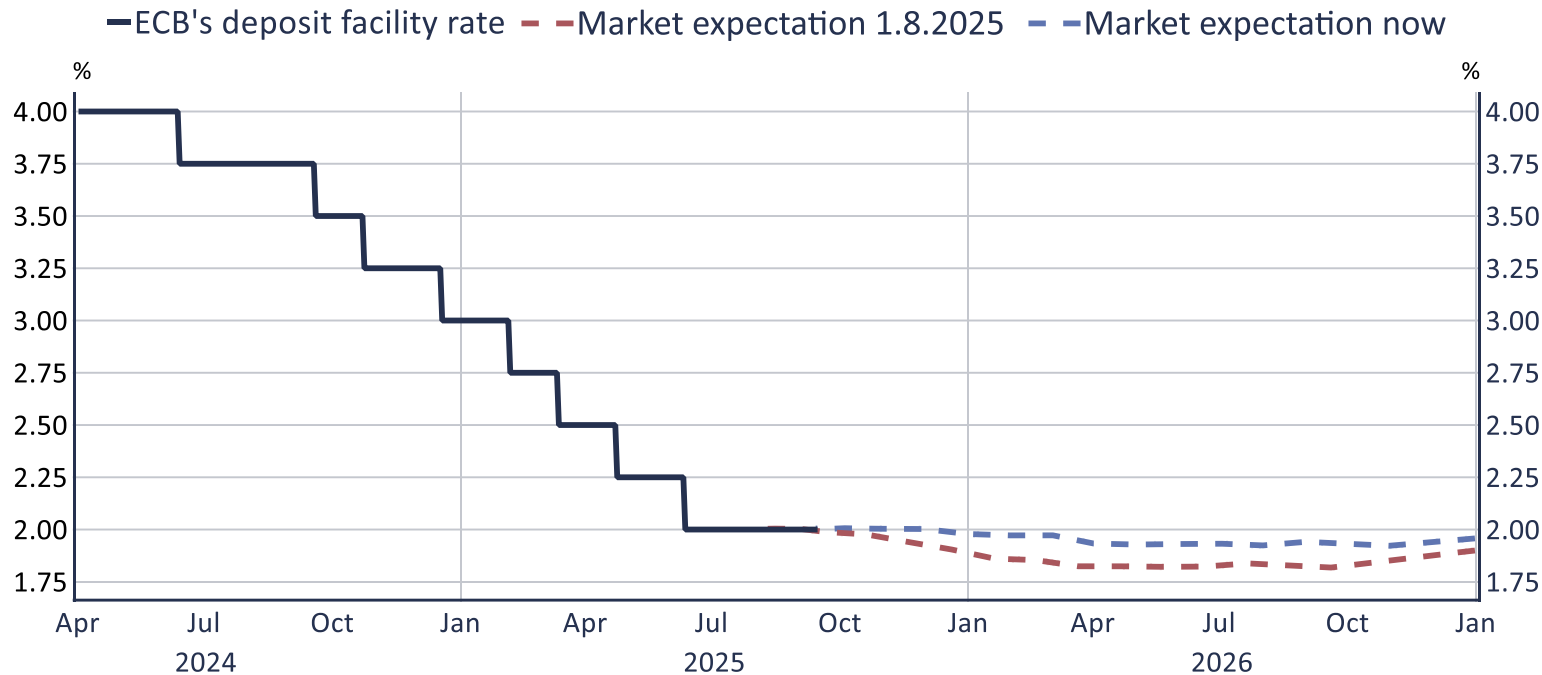
Sources: Eurostat and ECB.

Dashed line for the compensation per employee corresponds to projections by the ECB and the Eurosystem.

- 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*



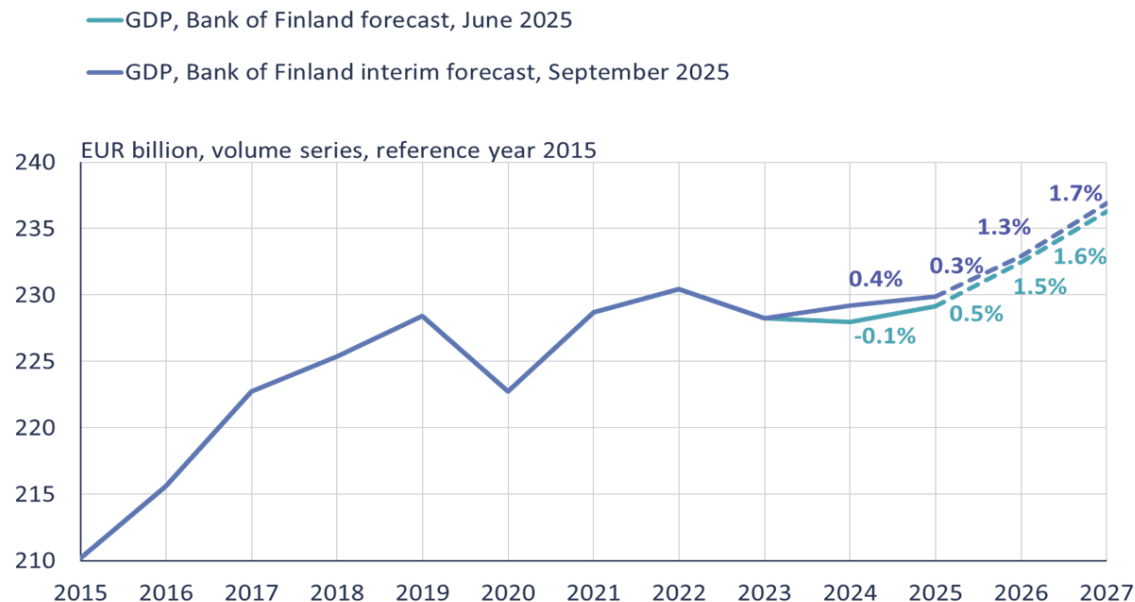
Source: ECB, Bloomberg and Bank of Finland's calculations.

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

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- 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

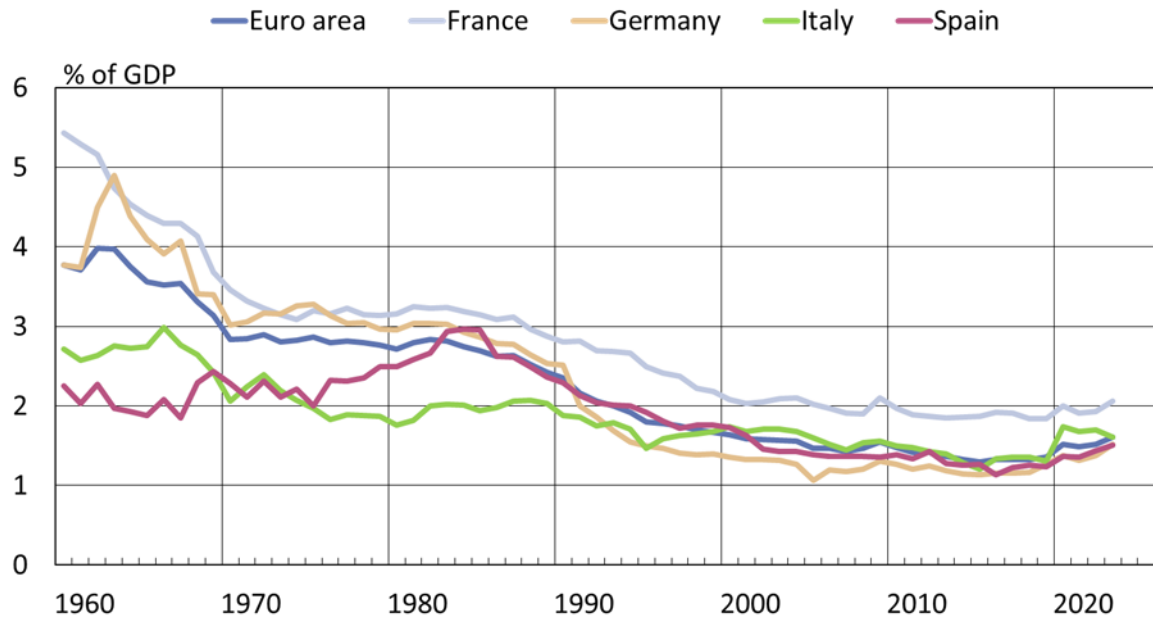


Sources: Statistics Finland and Bank of Finland.
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- The dip in 2024 was smaller than suggested by initial data – 2025 started from a slightly better situation.
- The first part of the year was weak, however, but there are signs of a pick-up in growth.
- 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.



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**Vakauden puolesta,
tutkitun tiedon pohjalta.**

*Securing stability,
in science we trust.*

