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EUROJÄRJESTELMÄ
FINLANDS BANK
EUROSYSTEMET

Monetary policy in testing times: power politics and the AI revolution

OMFIF, 17 September 2026

Governor Olli Rehn
Bank of Finland

Roadmap today

1. Global landscape: Europe’s geopolitical and technological cross-pressures

2. Euro area economic outlook and monetary policy

3. Europe’s triple test: common defence, green energy transition, productivity growth

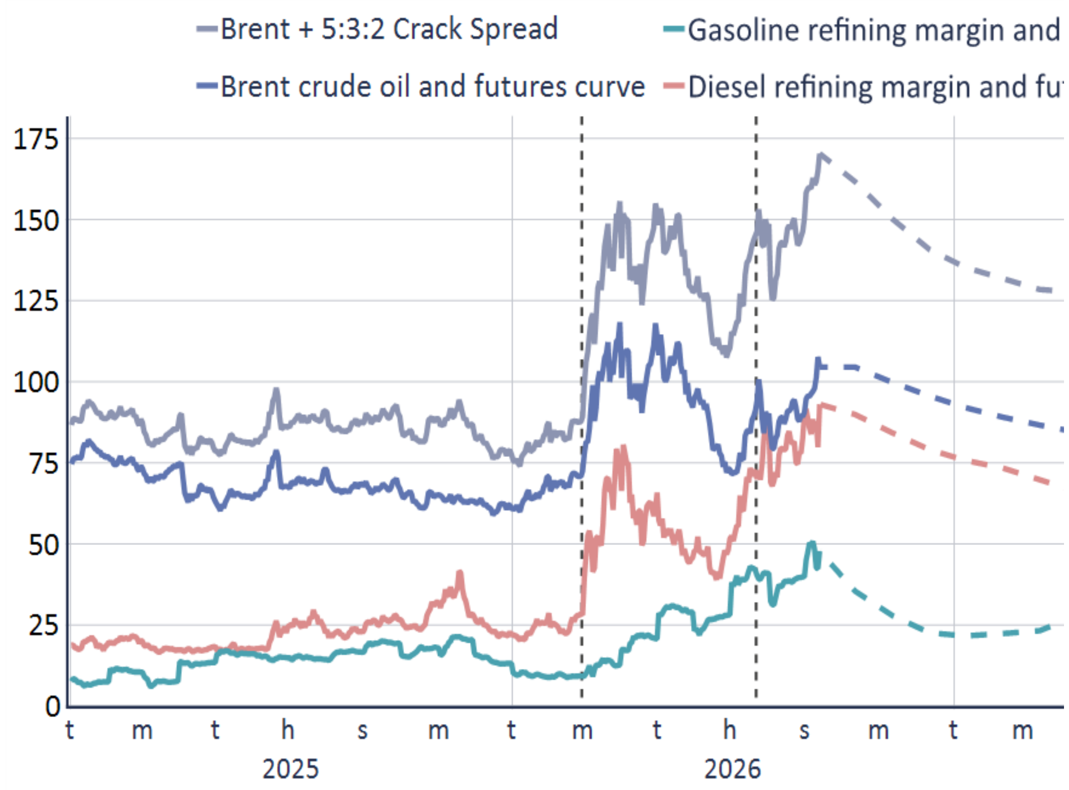
Europe has shown resilience, but is under cross-pressure – both geopolitical and technological

- Europe is facing a double political challenge: geopolitical pressure from outside and political polarization within.
- In the world economy, there are two countervailing forces: the AI investment boom vs the Iran war and the wider Middle East conflict.
- For euro area inflation, the driver is energy prices, while wage growth is moderate and second-round effects are absent, so far.

Europe can harness the AI boom to boost productivity

- AI is the key driver of investment, innovation and global growth.
- For Europe, the biggest opportunity is adoption: deploying AI across the private and public sectors can lift productivity and competitiveness.
- Human capital as well as top-notch energy and digital infrastructures are essential to turn AI investment into sustained productivity growth.
- Financial stability risks must be managed: Europe too is exposed to a potential repricing of US technology assets.
- The technological transformation will go on, even if there is repricing/reshuffling in the AI value chain.

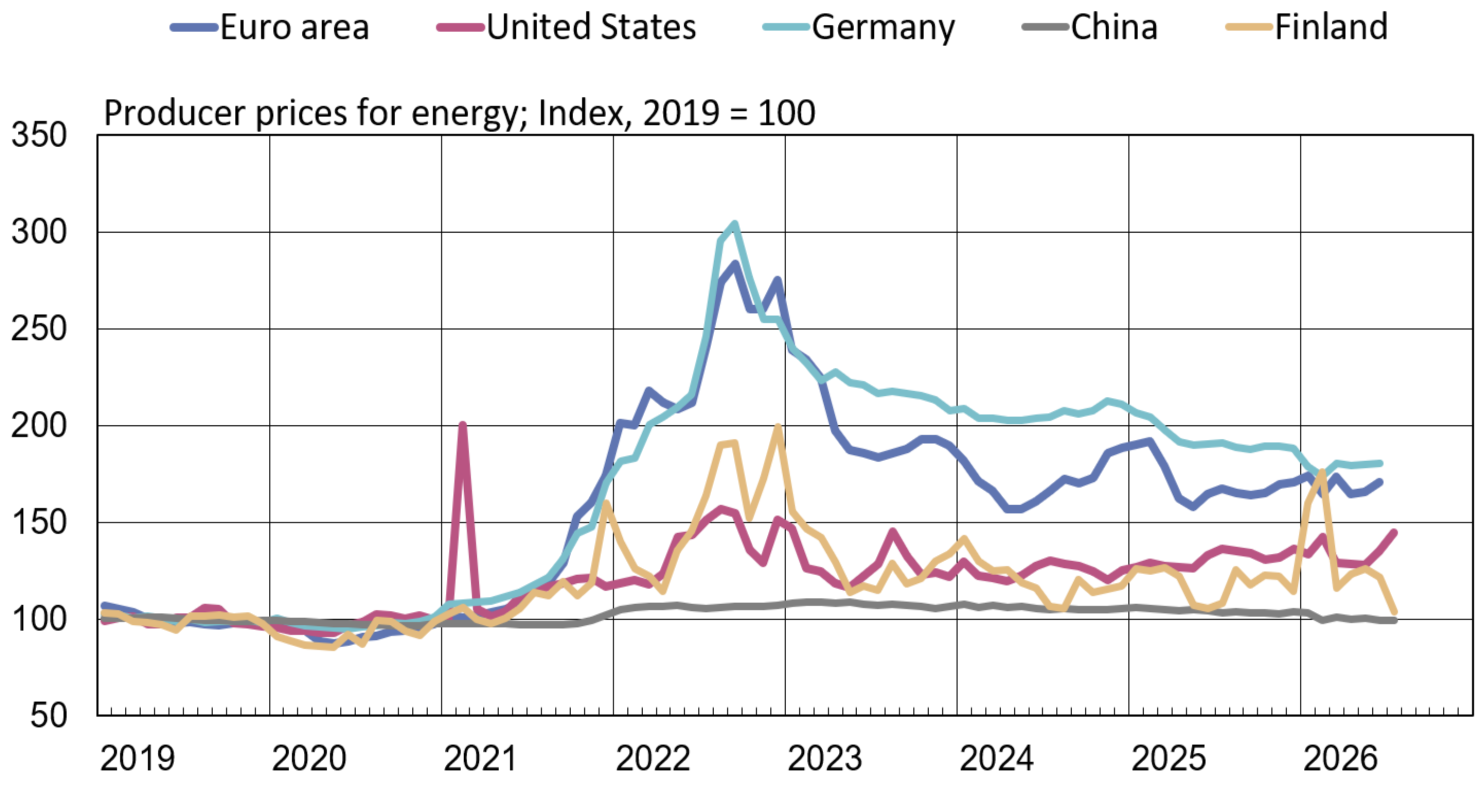
From a transient conflict to a new normal? The Middle East conflict is dragging on, with persistent ramifications



Source: Bloomberg.

- Freedom of navigation faces a long-term threat – strategic straits remain vulnerable.
- Geopolitical risk – and political fundamentals – could lead to a more permanent rise in Middle East oil prices and refining margins.
- **Adaptation** will be the deciding factor: new routes, suppliers and infrastructure.
- Going forward, **the green energy transition** will reduce dependence on fossil fuels.
- **In Finland**, electricity production is **now 96% fossil-free**: approx. 40% nuclear, 55% renewable.

Energy markets are driving inflation dynamics and damaging Europe’s competitiveness



Sources: Eurostat, BLS and China NBS.
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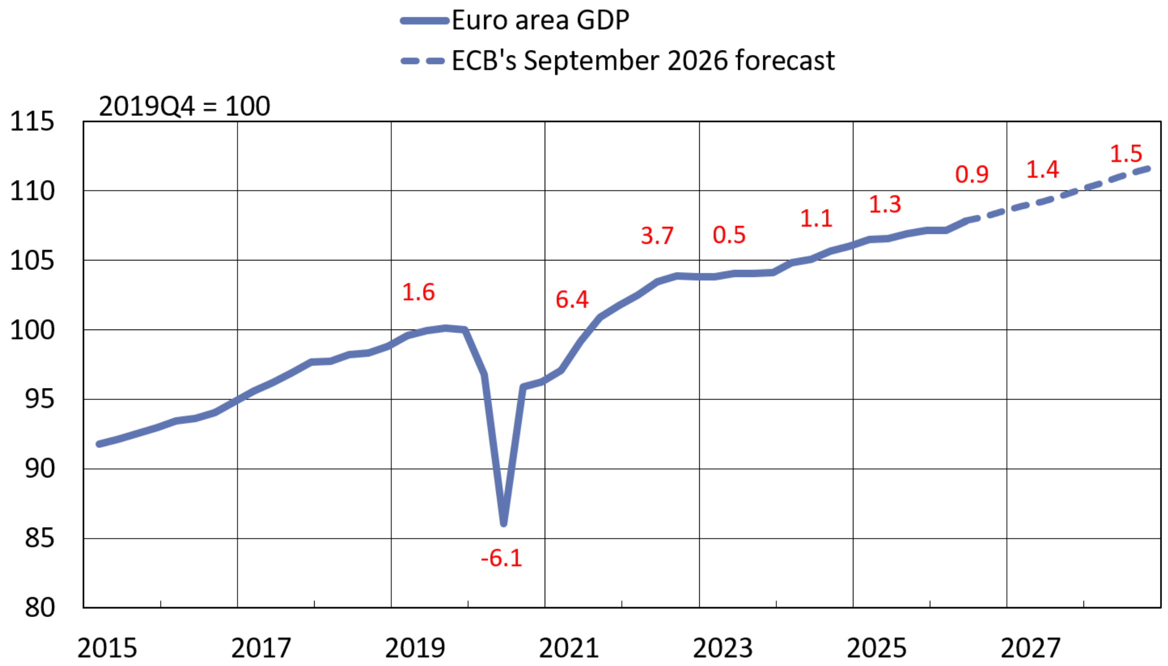
Euro area economy has shown resilience amid yet another energy crisis



Figures next to the curve are annual growth rates, %.
Sources: Eurostat and ECB.
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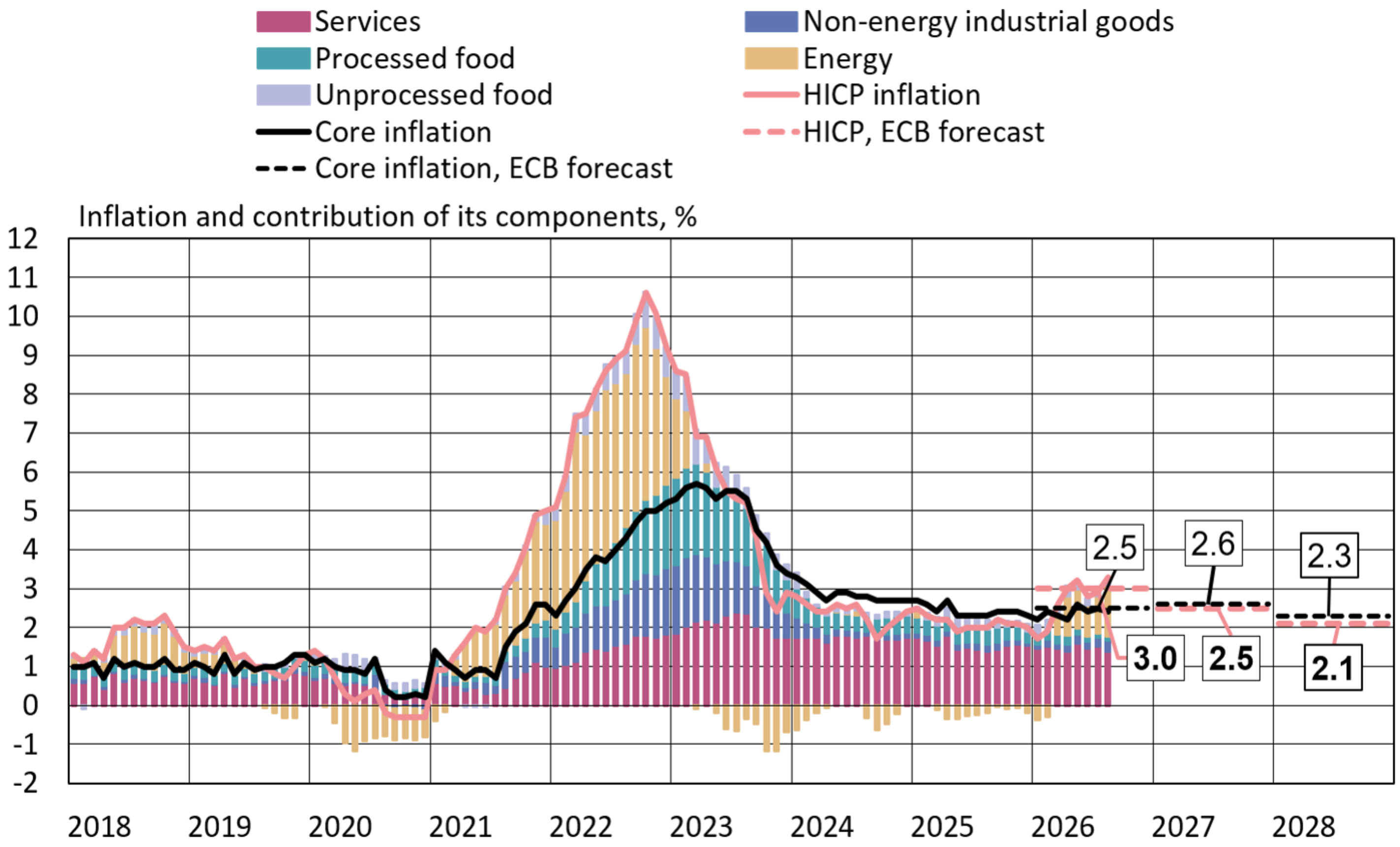
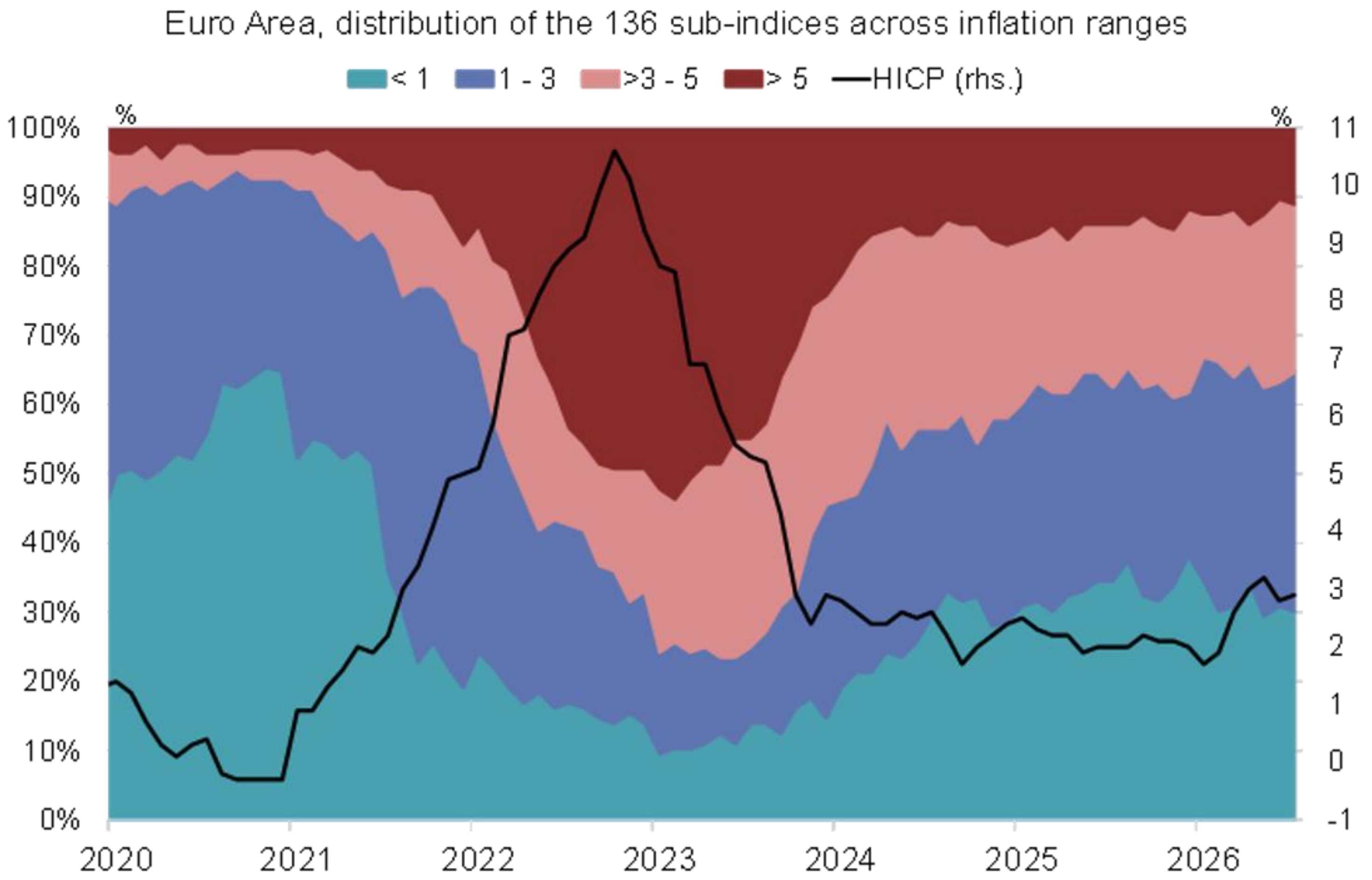
- Defence and infrastructure investments are supporting growth.
- Consumer confidence is improving.
- Increased AI-related activity is visible in digital services, business investment and exports.
- Uncertainty remains elevated due to the conflict in the Middle East and volatile energy prices.

Inflation is above target – the energy shock is not over yet

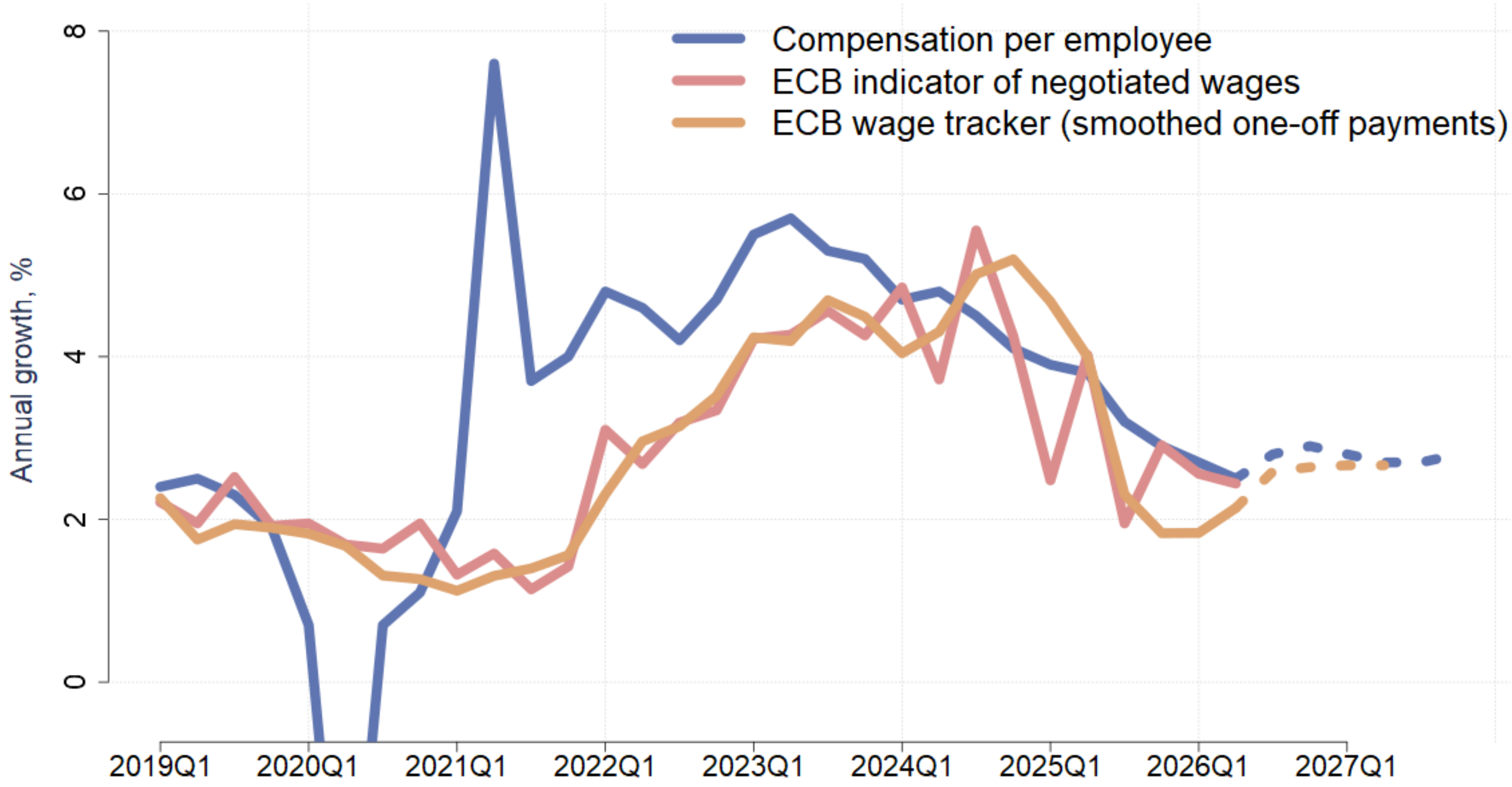


Sources: Eurostat and ECB.

So far, no clear signs of inflation becoming broad-based – but upward risks may be creeping in



Euro area wage inflation projected to stay at current levels in the second half of the year



Sources: Eurostat and ECB.

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

Europe’s strategic triple test

01

Common defence

Take greater responsibility for Europe’s security through joint investment and procurement.

SECURITY

02

Green transition

Build an energy system that is resilient, competitive and less exposed to shocks.

ENERGY RESILIENCE

03

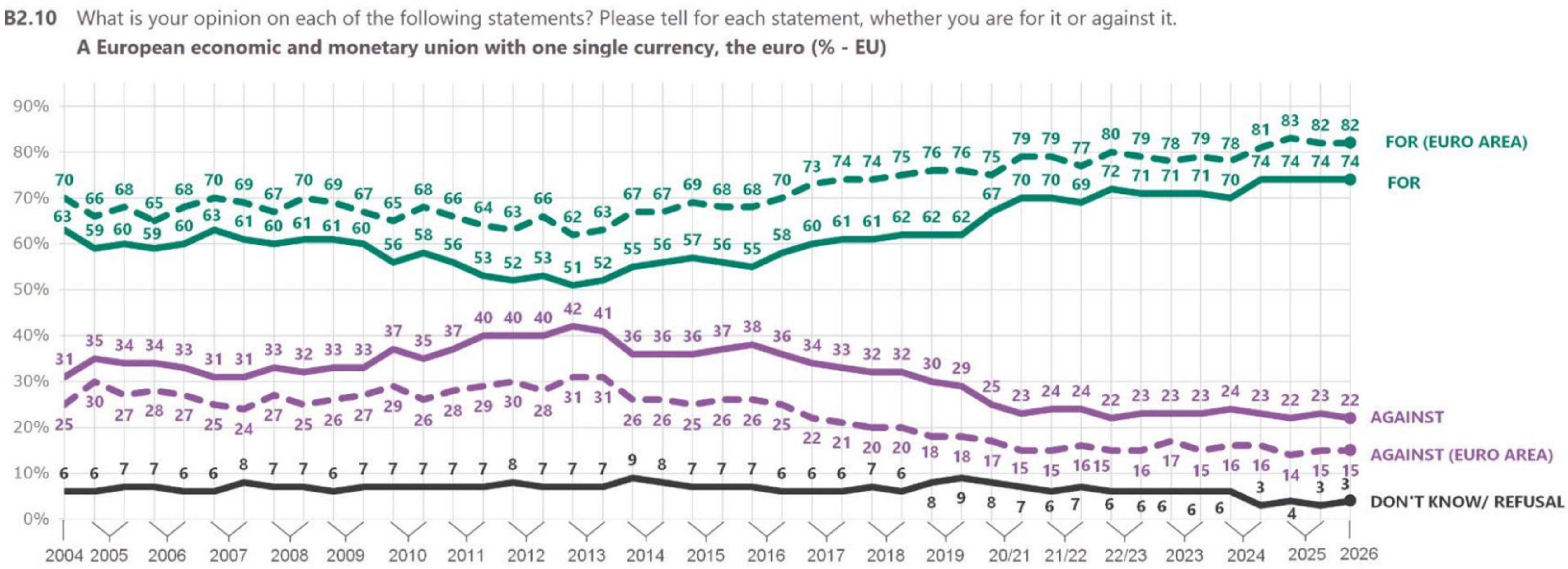
Productivity growth

Lift long-term productivity growth through human capital, deeper capital markets, innovation and removing regulatory barriers.

GROWTH POTENTIAL

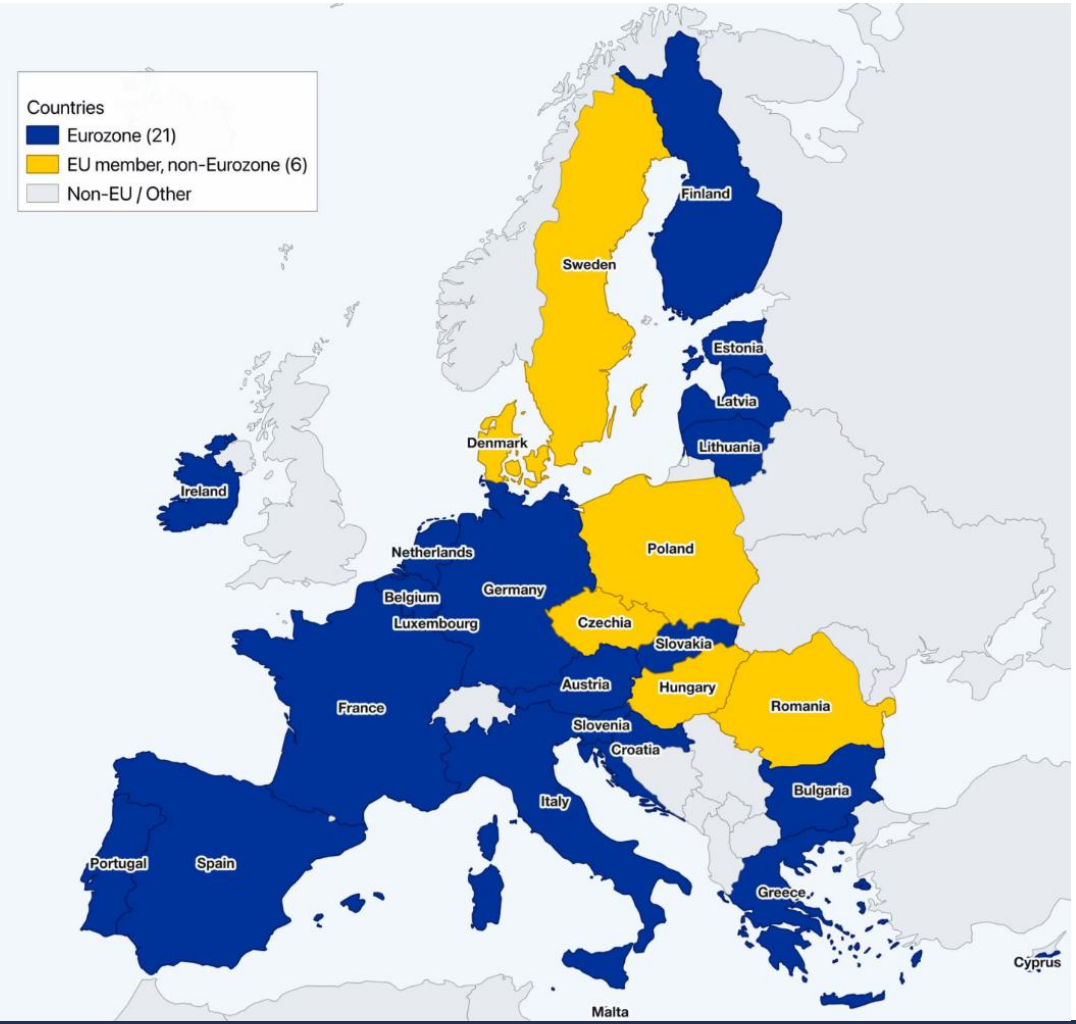
EU and national measures will shape Europe’s economic future and autonomy.
The ECB will provide a steady hand amidst the uncertainty.

Support for the euro

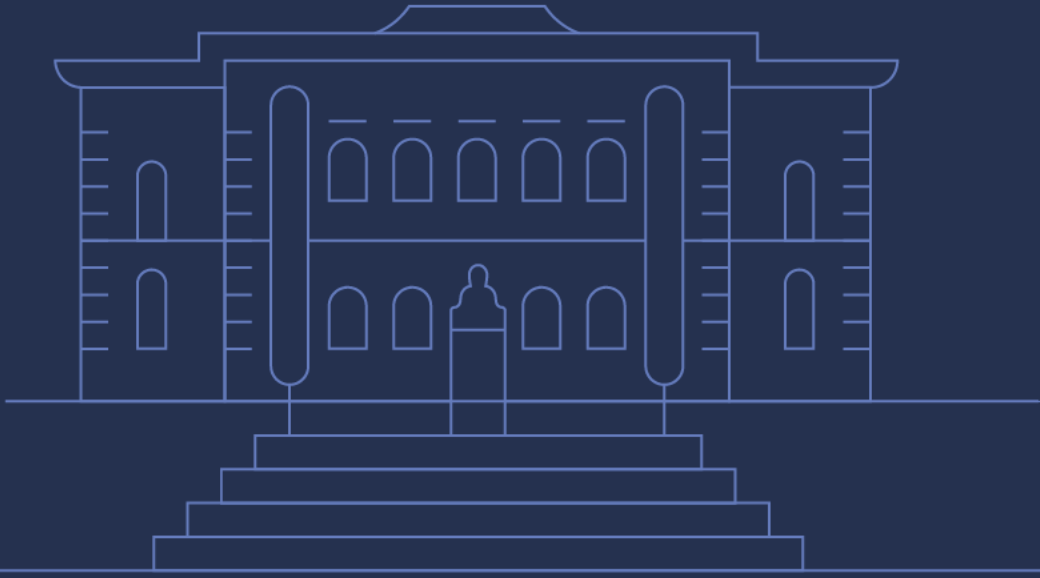


Evolution of the membership of the Economic and Monetary Union (EMU) 1999–2026

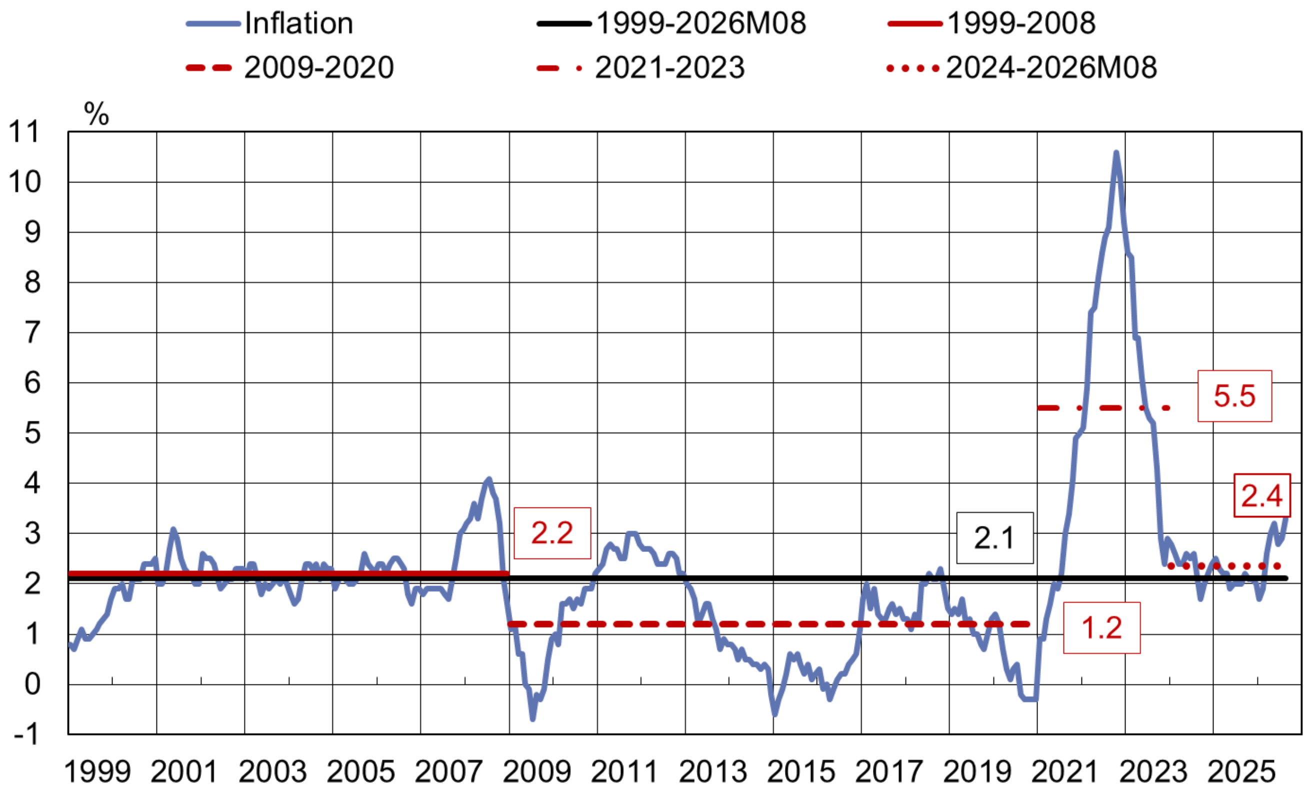
- Early 1999: 11 countries
- 2001: Greece → 12
- 2007: Slovenia → 13
- 2008: Cyprus, Malta → 15
- 2009: Slovakia → 16
- 2011: Estonia → 17
- 2014: Latvia → 18
- 2015: Lithuania → 19
- 2023: Croatia → 20
- 2026: Bulgaria → 21



Securing stability,
in science we trust.
– Bank of Finland



Four periods of euro area inflation 1999-2025



Source: Eurostat.
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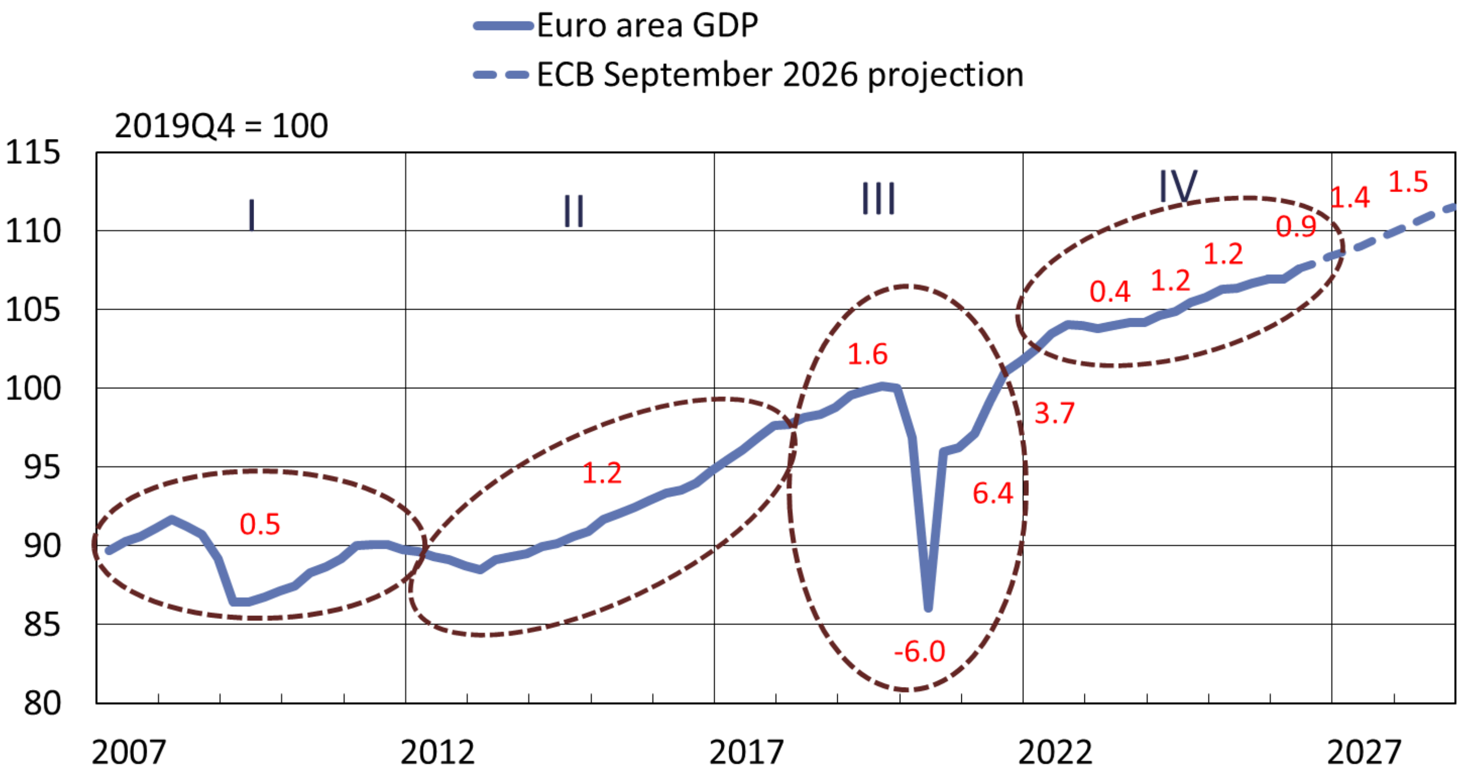
The euro area economy's pulse: GDP development, 2007-2027



Figures next to the curve are annual growth rates, %.
Sources: Eurostat and ECB.

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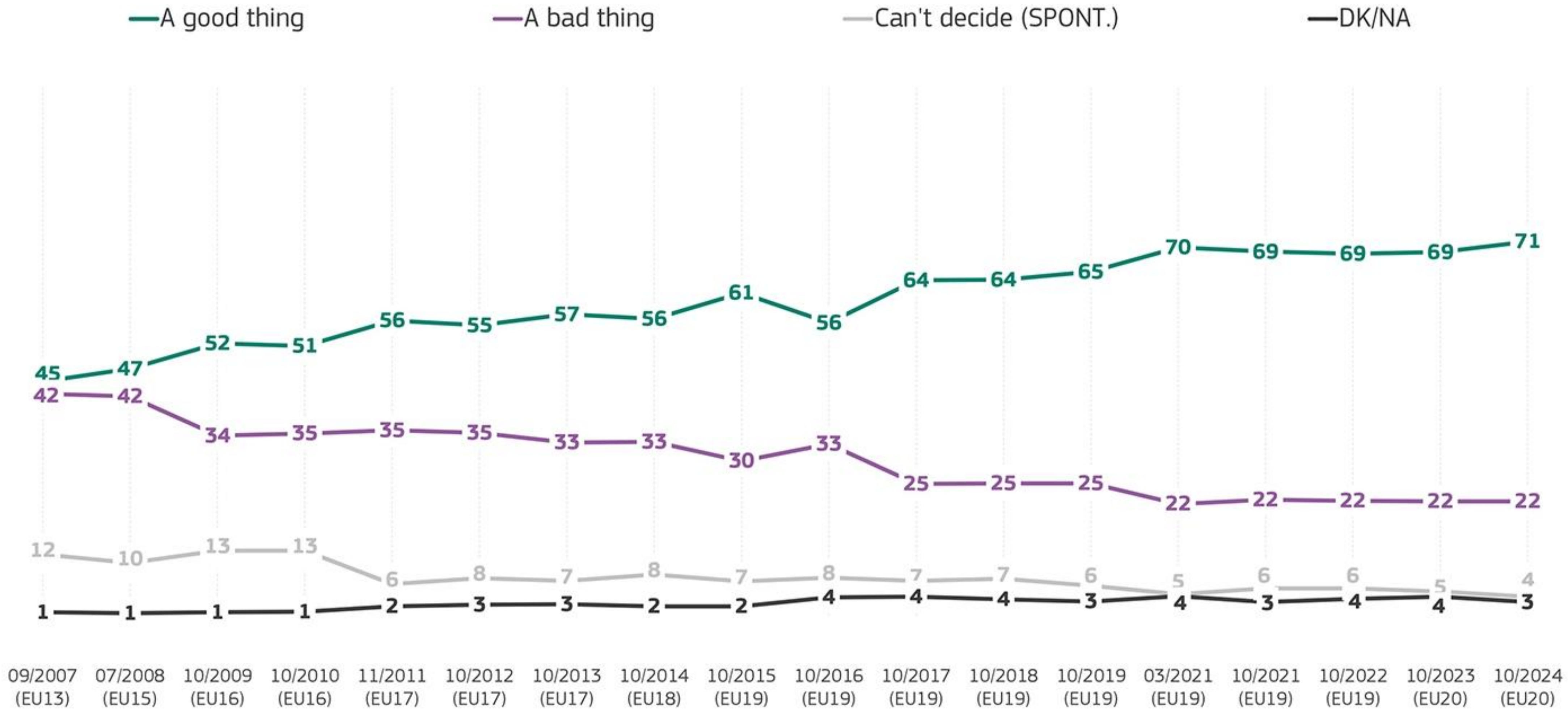
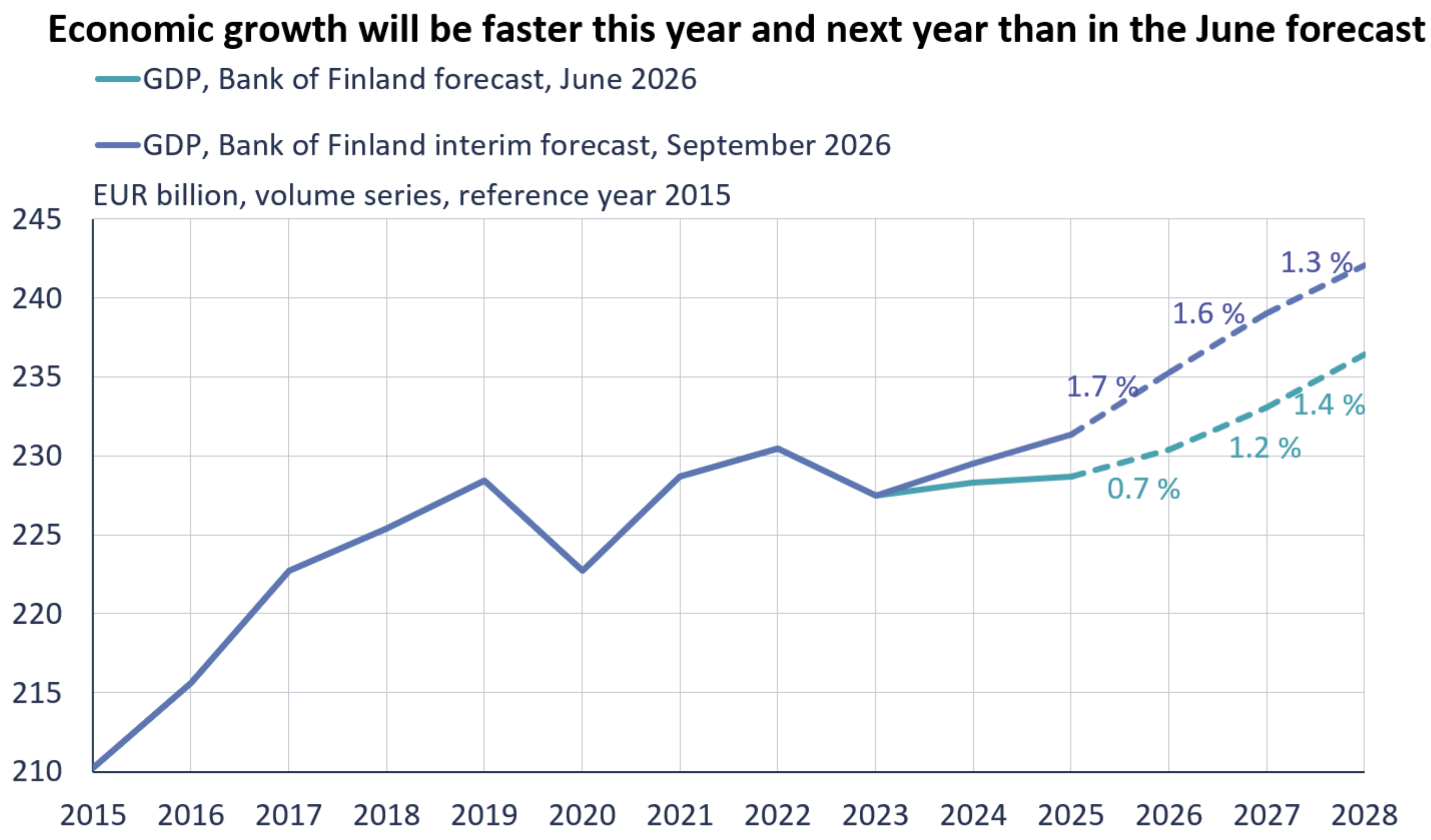
Do citizens consider the euro a good or a bad thing?

Eurobarometer 2007–2024:

“Generally speaking, do you think that...? The euro is a good or a bad thing for your country.”



Economic growth in Finland will be faster in 2026 and 2027 than was previously forecast

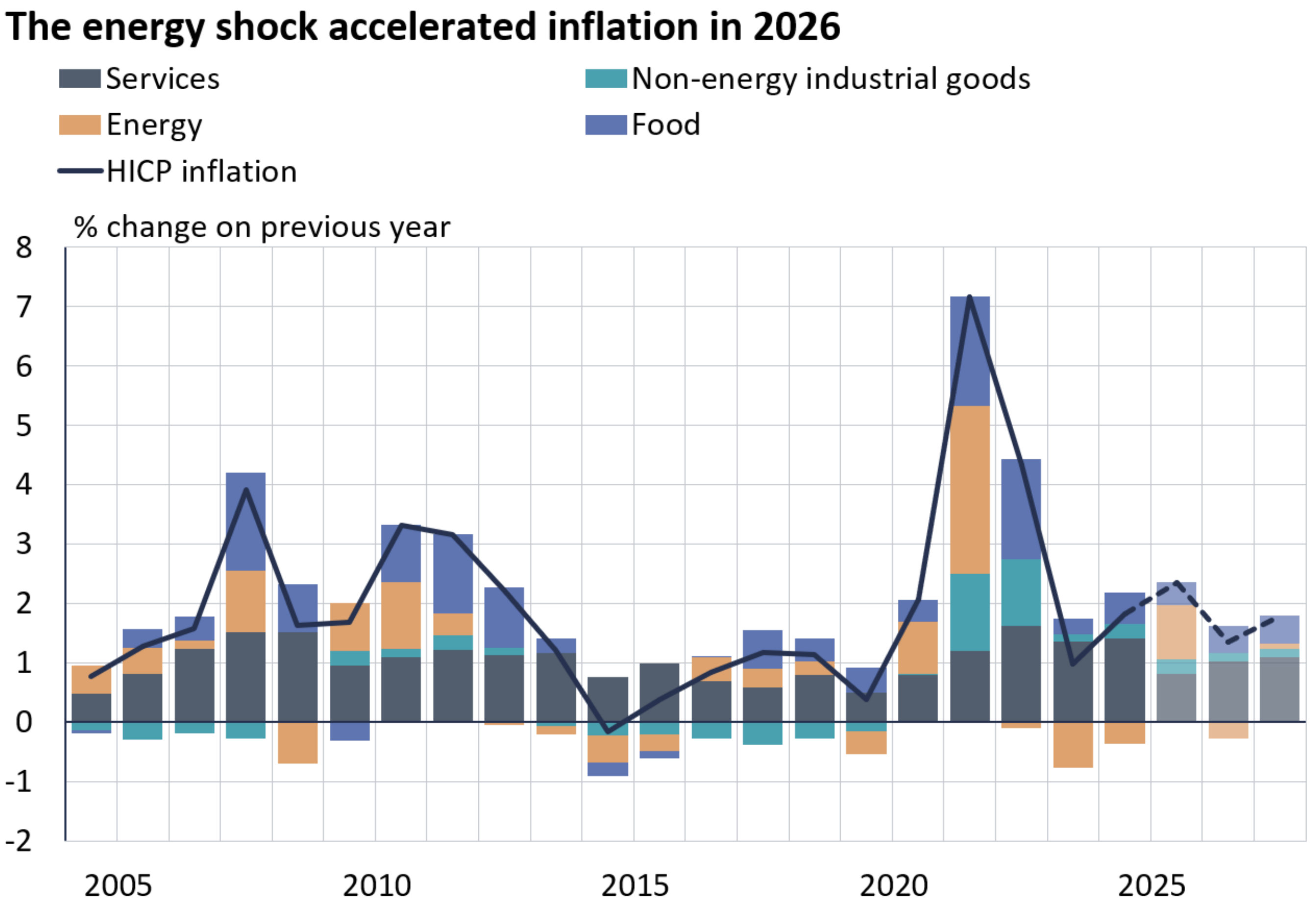


Sources: Statistic Finland and Bank of Finland.

Finland’s unemployment rate is declining slowly

Sources: Statistics Finland and Bank of Finland.

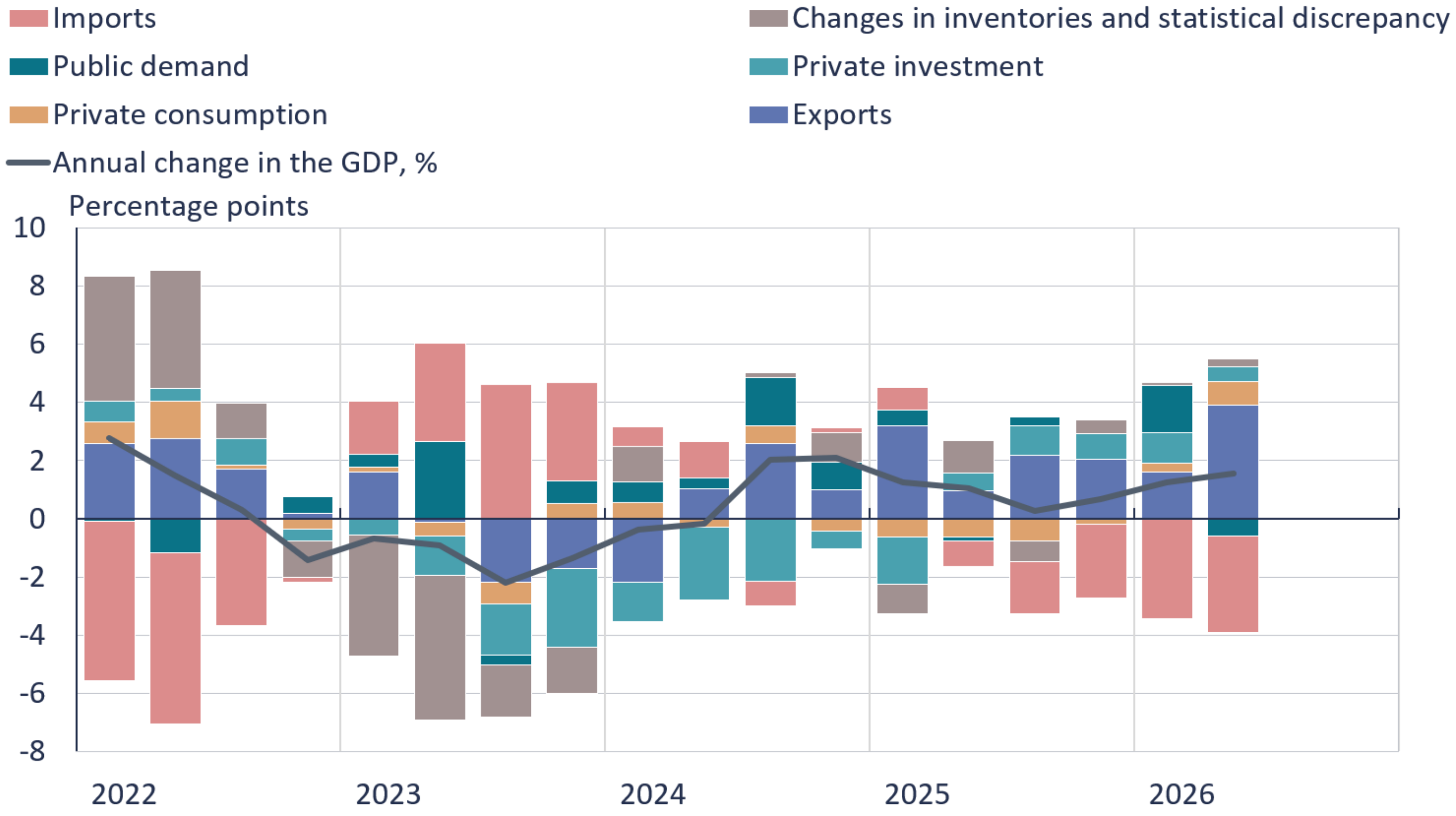
The energy shock accelerated inflation in Finland in 2026



Sources: Eurostat and Bank of Finland (forecast).

Exports were the main driver of Finland's economic growth in the first half of 2026

Exports were the main driver of growth in the first part of the year



Sources: Statistics Finland and calculations by the Bank of Finland.