

SUOMEN PANKKI
EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Monetary policy in a world of power politics and technological transition

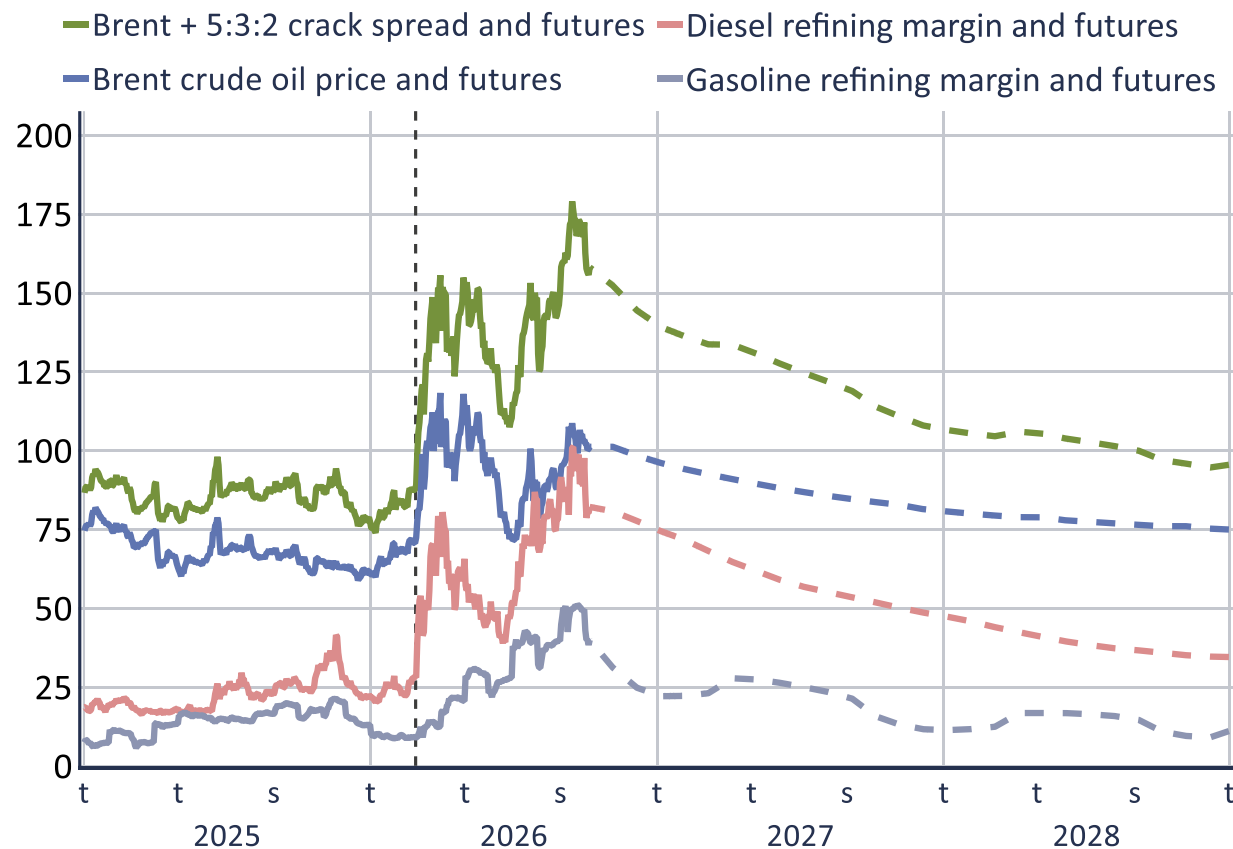
Bank of Finland Bulletin press briefing
6 October 2026

Governor Olli Rehn
Bank of Finland

Europe has shown resilience, but is under cross-pressure from geopolitics and technological advances

- Europe is facing headwinds from two directions: externally from geopolitical confrontation, internally from political polarisation.
- Growth in the global economy is affected by two divergent forces: strong investment growth in artificial intelligence (AI), and the Middle East conflict.
- Energy prices are driving euro area inflation, whereas wage growth is moderate and second-round effects have not been observed so far.

From a temporary conflict to a new normal? Far-reaching consequences from a prolonged Middle East conflict



Source: Bloomberg.

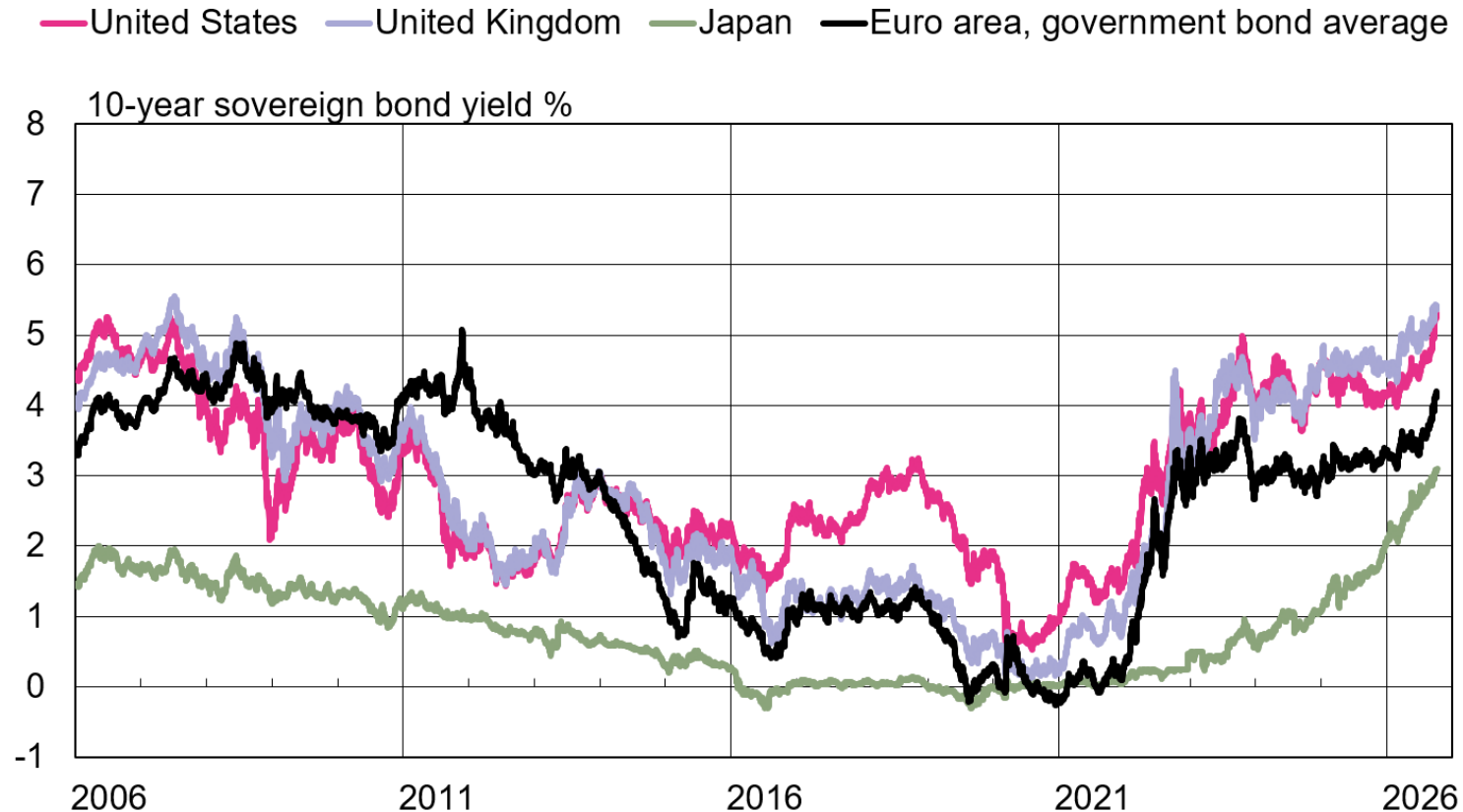
©Suomen Pankki 7.10.2026

- Geopolitical risk – and political factors – could push up Middle East oil and gas prices and refining margins more permanently.
- Adaptation is key: new routes, suppliers and infrastructure.
- In future, the clean energy transition will reduce dependence on fossil fuels.
 - Finland: 96% of electricity production emission-free. Nuclear energy 40%, renewable energy 55%.

Europe can harness AI development to boost productivity

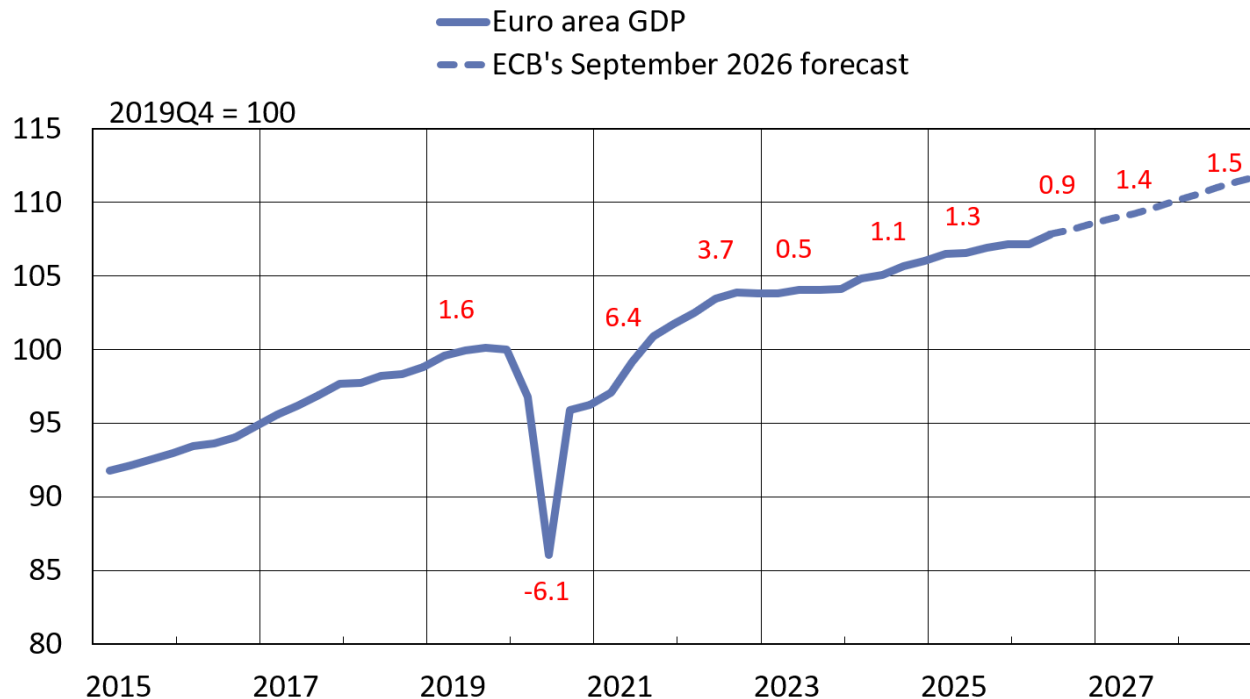
- AI is now the engine of investment, innovation and global growth.
- Europe is not at the forefront of AI, but its **successful harnessing** in the private and public sectors can improve productivity and competitiveness.
- Human capital and world-class energy and digital infrastructure are essential if AI investment is to boost productivity.
- The technological transition will continue to advance, despite any repricing or structural changes in the AI value chain.

Inflation risks, government borrowing and competition for capital have pushed up long-term interest rates



Source: Macrobond.
32422@vvk10+EA_eng

Euro area GDP growth has recently been stronger than projected – ECB made a slight upward revision to its growth projection in September

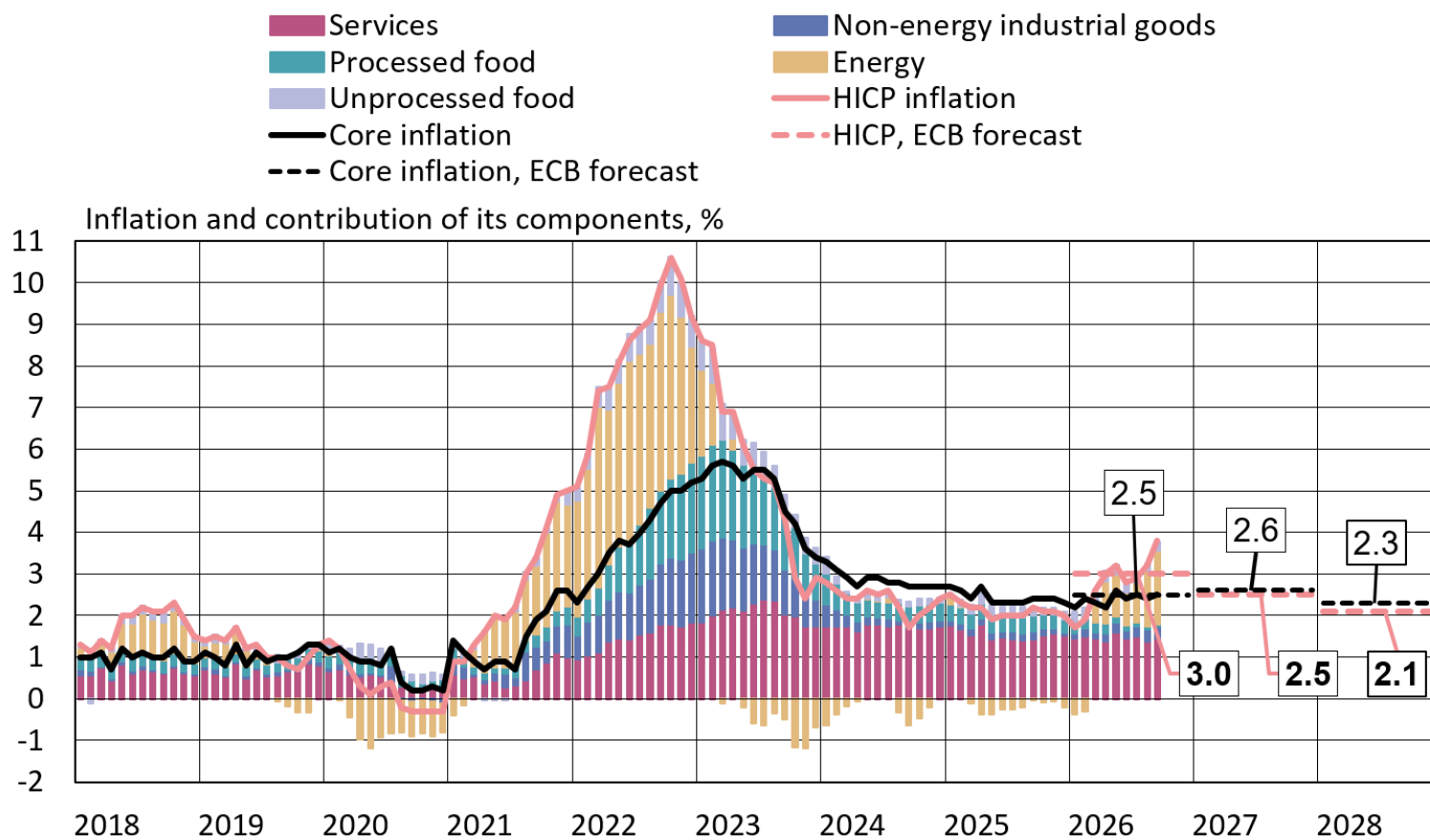


Figures next to the curve are annual growth rates, %.
Sources: Eurostat and ECB.

48114@BKT ennuste(en)

- Defence and infrastructure investments are supporting growth.
- Consumer confidence has risen.
- AI adoption reflected in digital services, corporate investment and exports.
- Uncertainty is still high due to the Middle East conflict and fluctuations in energy prices.
- Risks to the growth outlook are to the downside.

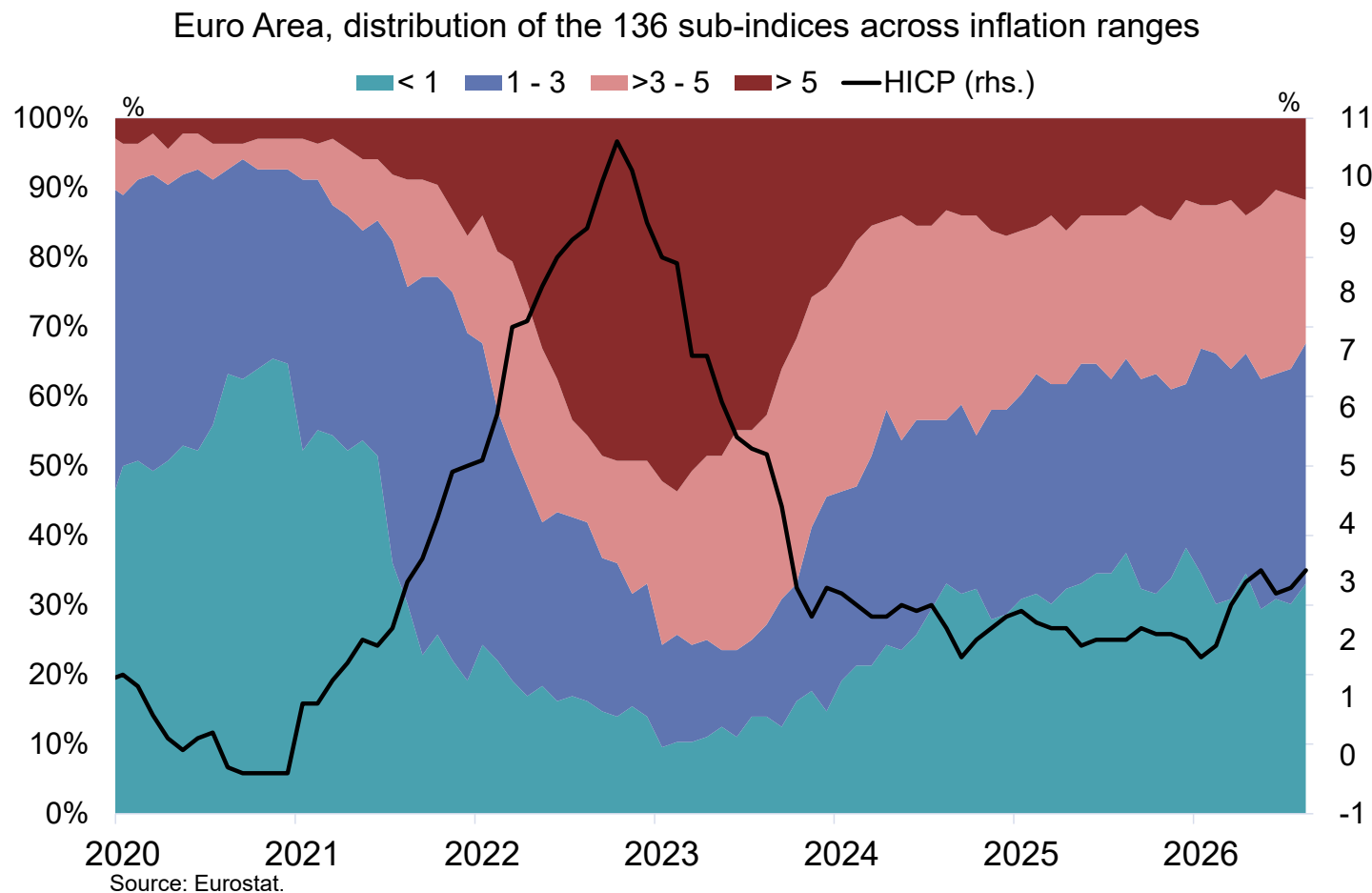
Euro area inflation has risen, driven by energy prices



Sources: Eurostat and ECB.

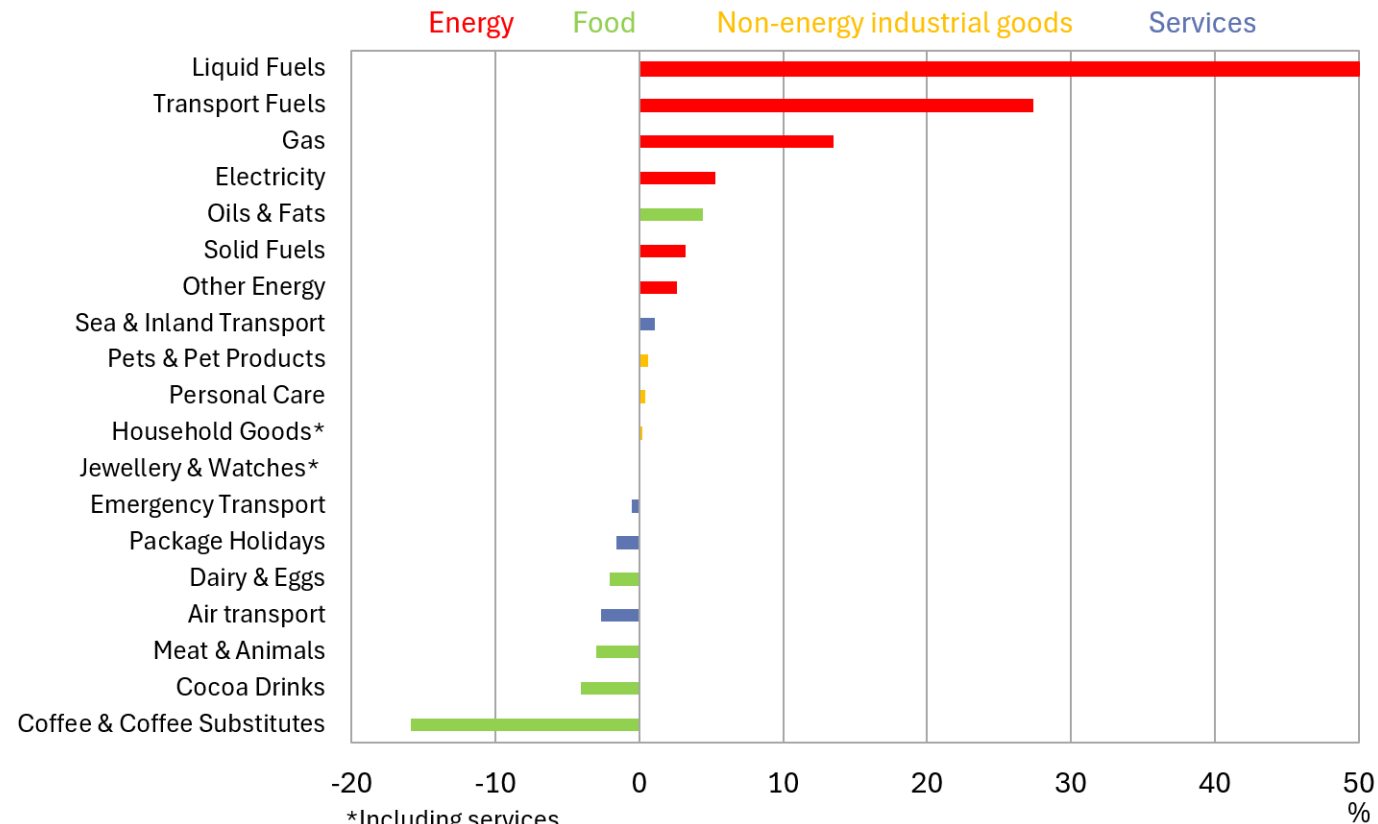
32426@YKHlkont (en)

Euro area inflation not yet broad-based, but upside risks to inflation have increased recently



Rise in inflation still mainly due to commodities that are directly or indirectly linked to energy

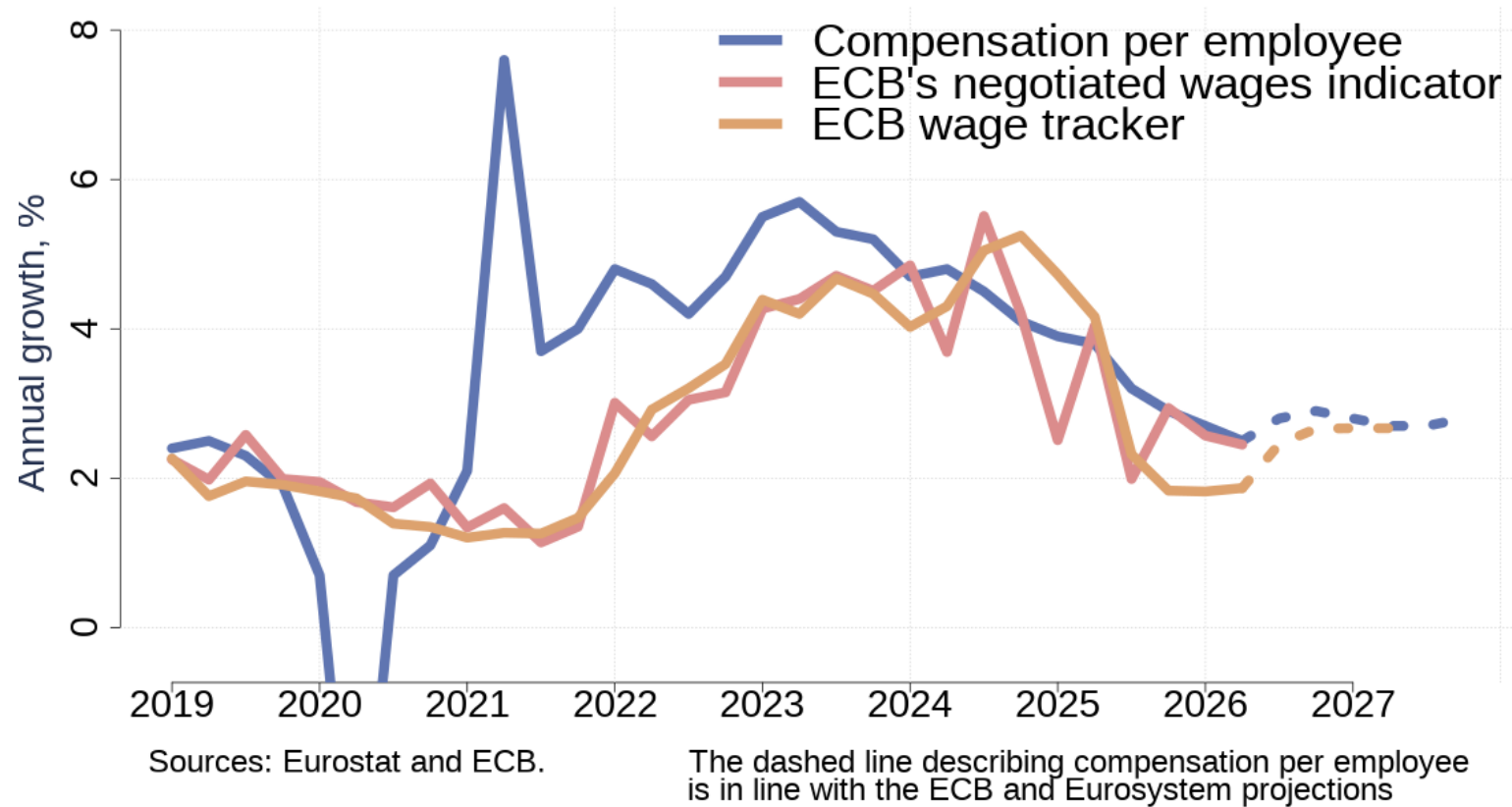
Change in inflation rate from February 2026 to August 2026



*Including services.

Source: Eurostat

Euro area wage growth has remained moderate so far



ECB raised policy rates by 0.25 percentage points in September

- The outlook for euro area inflation and the risks surrounding it warranted a rate increase.
- Since spring 2026, inflation has been well above the ECB's 2% target.
- The Middle East conflict continues to cause significant uncertainty, and we have not yet seen the full effects of the energy shock on inflation.
- So far, the spillover of the energy shock to other prices has been more limited than feared. There are currently no signs of second-round effects.
- The ECB conducts monetary policy with a medium-term orientation.
- The ECB's Governing Council is not pre-committing to a particular rate path but will take decisions meeting by meeting and on the basis of incoming data and analysis and an overall assessment.

Summary

- Europe has shown resilience, but the pressure from energy prices may persist for a long period.
- Europe should take advantage of AI and adopt it rapidly to boost productivity growth.
- Inflation risks, government borrowing and competition for capital are pushing up long-term interest rates. Government borrowing must be brought onto a sustainable track.
- Euro area inflation is now well above the ECB's 2% target, but there are no clear signs yet that inflation is becoming more broad-based.
- The ECB is committed to stabilising inflation at around the 2% target in the medium term.



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

*Securing stability,
in science we trust.*

