

SUOMEN PANKKI
EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Europe at the crossroads: common defence, re-emerging economy?

The Bank of Finland and Bruegel
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SUOMEN PANKKI

Governor Olli Rehn
Bank of Finland

LANDS BANK

Outline of today's talk

1. Geopolitical landscape is undergoing a seismic shift
2. Europe must urgently build a common defence
3. Re-emergence of the EU economy through innovation, trade, productivity, human capital

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?



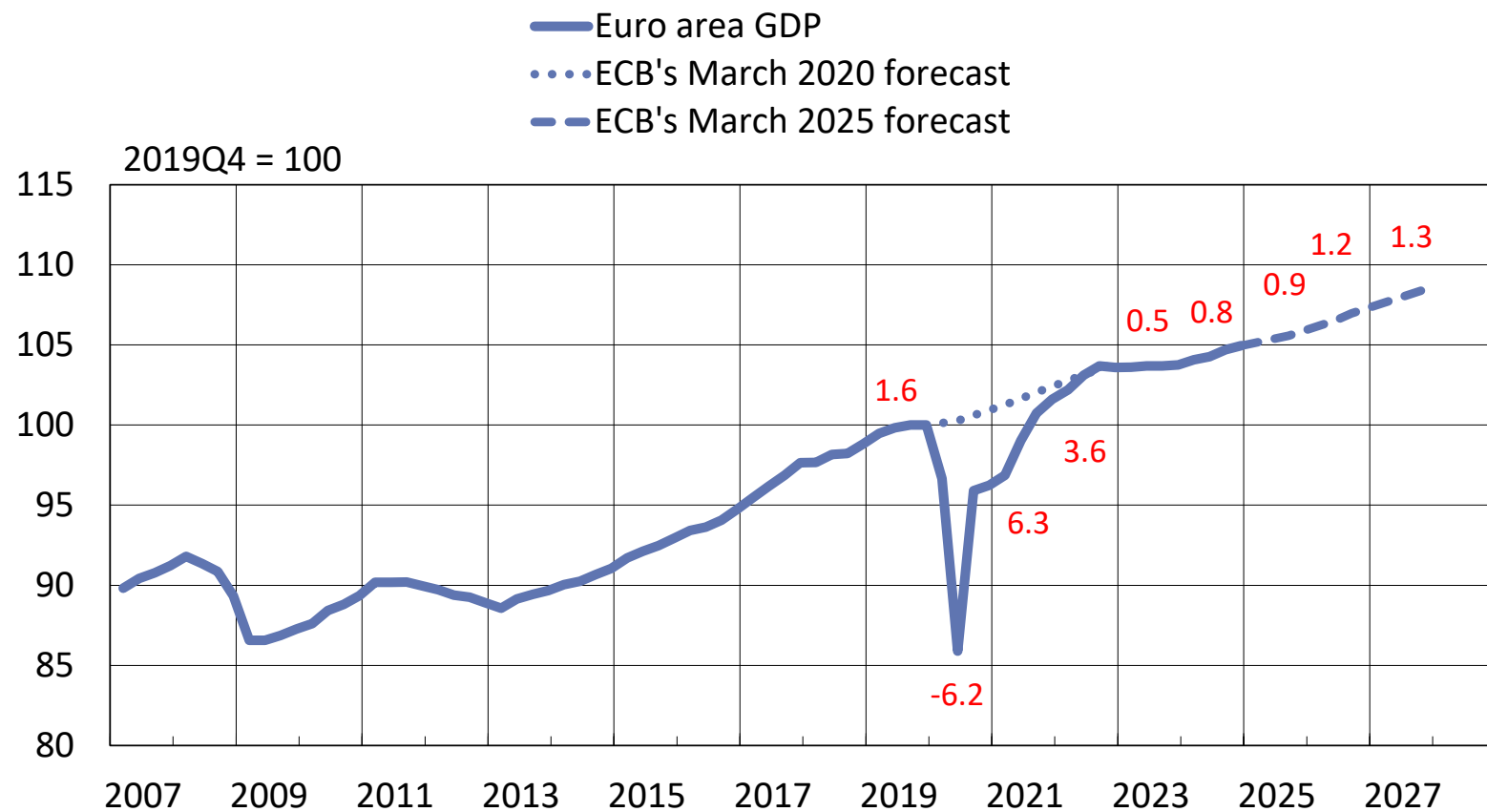
United States

- 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?

Growth in the euro area has been picking up, but the trade war is weakening the outlook

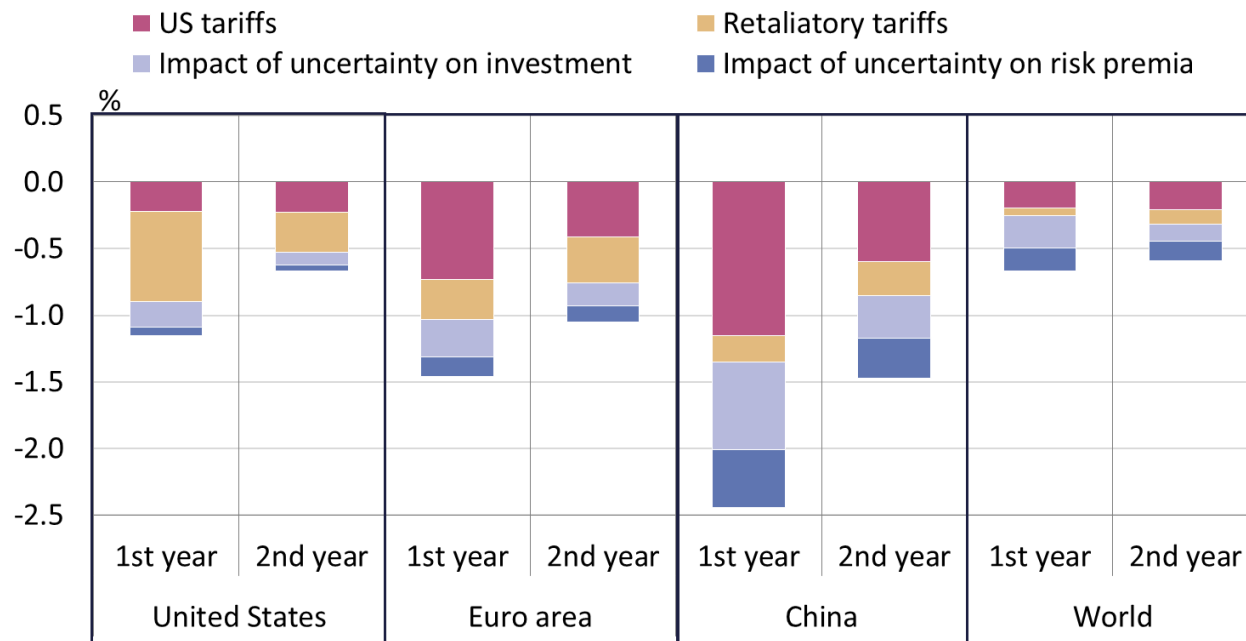


Figures next to the curve are annual growth rates, %.

Sources: Eurostat and ECB.

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Bank of Finland's scenario calculation: A trade war would weaken growth worldwide

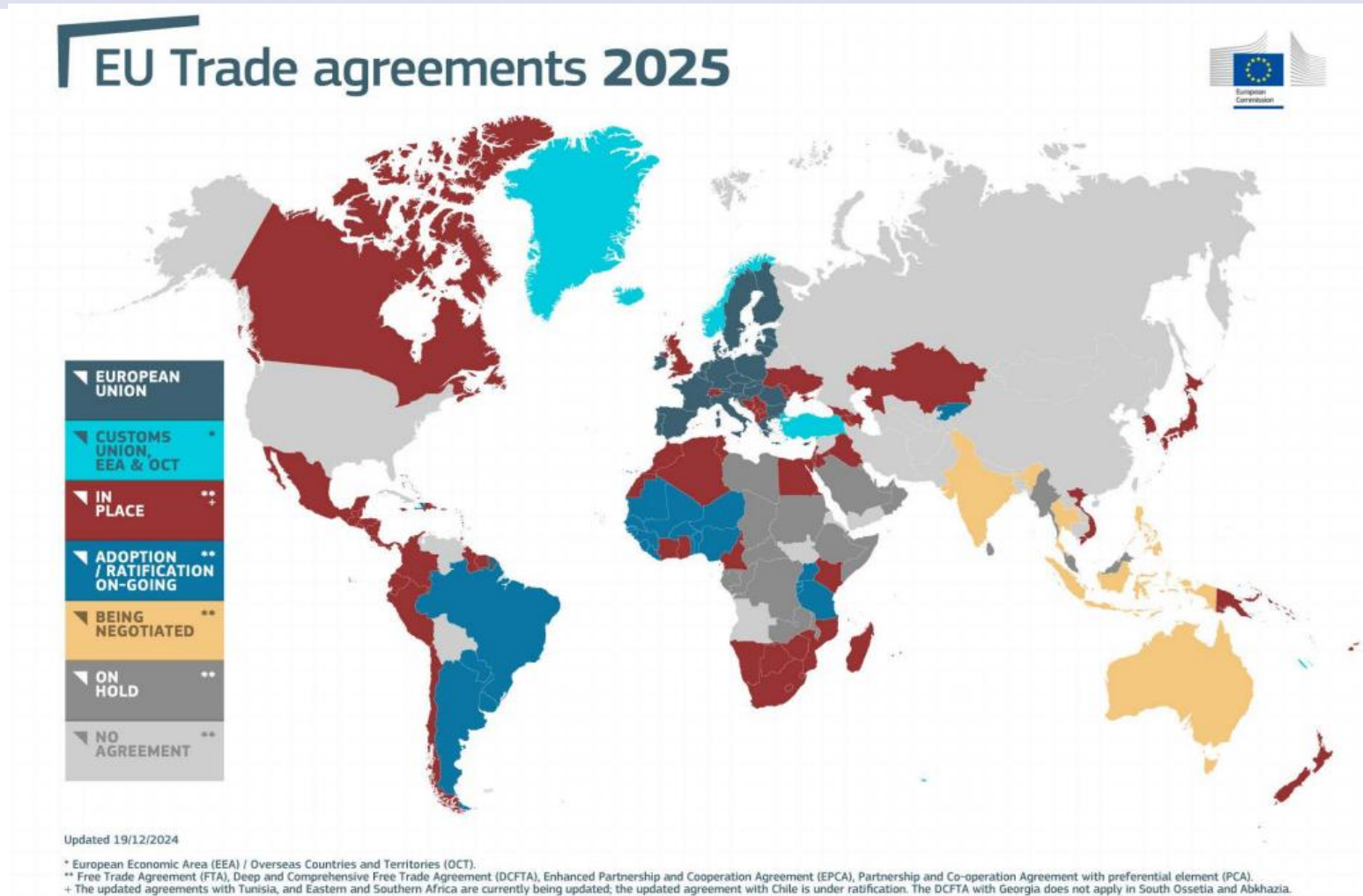


Source: Calculations by the Bank of Finland.
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- Assumptions: 25% US tariff on all imports from the EU; 20% US tariff on all imports from China; symmetric countermeasures. Increase in uncertainty is taken into account.
- No winners in a trade war. World GDP -0.5% per year. Stronger impact on the EU and China. Countermeasures weaken US companies' market positions.
- Apart from tariffs, uncertainty related to trade disputes will hit investment and raise risk premia.
- Impact on inflation moderate projected moderate.

EU free trade agreements: 45 in place with 76 countries, and more being negotiated



Europe is under challenge from the world of geopolitics – investment needed now in security and productivity

- 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 is having to be made in an environment where public finances are under pressure. Common European solutions are also needed.
 - At the same time, Europe must find ways to increase productivity. The single market must be finalised and investment made in human capital and research.
- 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.



” *Securing stability,
in science we trust.*

