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# Europe's Triple Test: Defence, Decarbonisation and Dynamism

Lectures of the Governor  
OECD, 13 June 2025

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# 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
- The Middle East conflict and power shifts
- Climate goals slipping: on track to +2.5°C to +3.0°C?

## United States

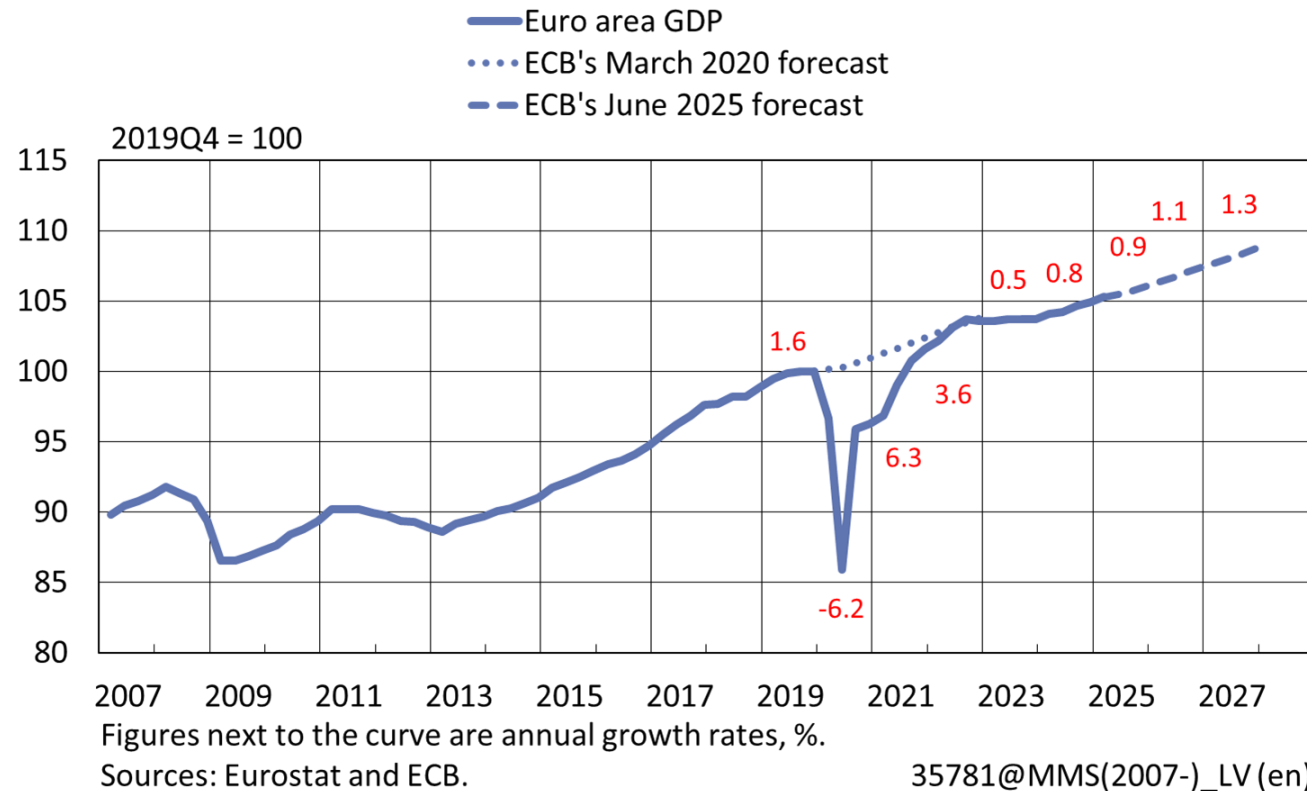
- Trade and fiscal policies?
- Approach to Ukraine, Russia?
- Strategic competition with China: trade, tech, Taiwan?



## Asia

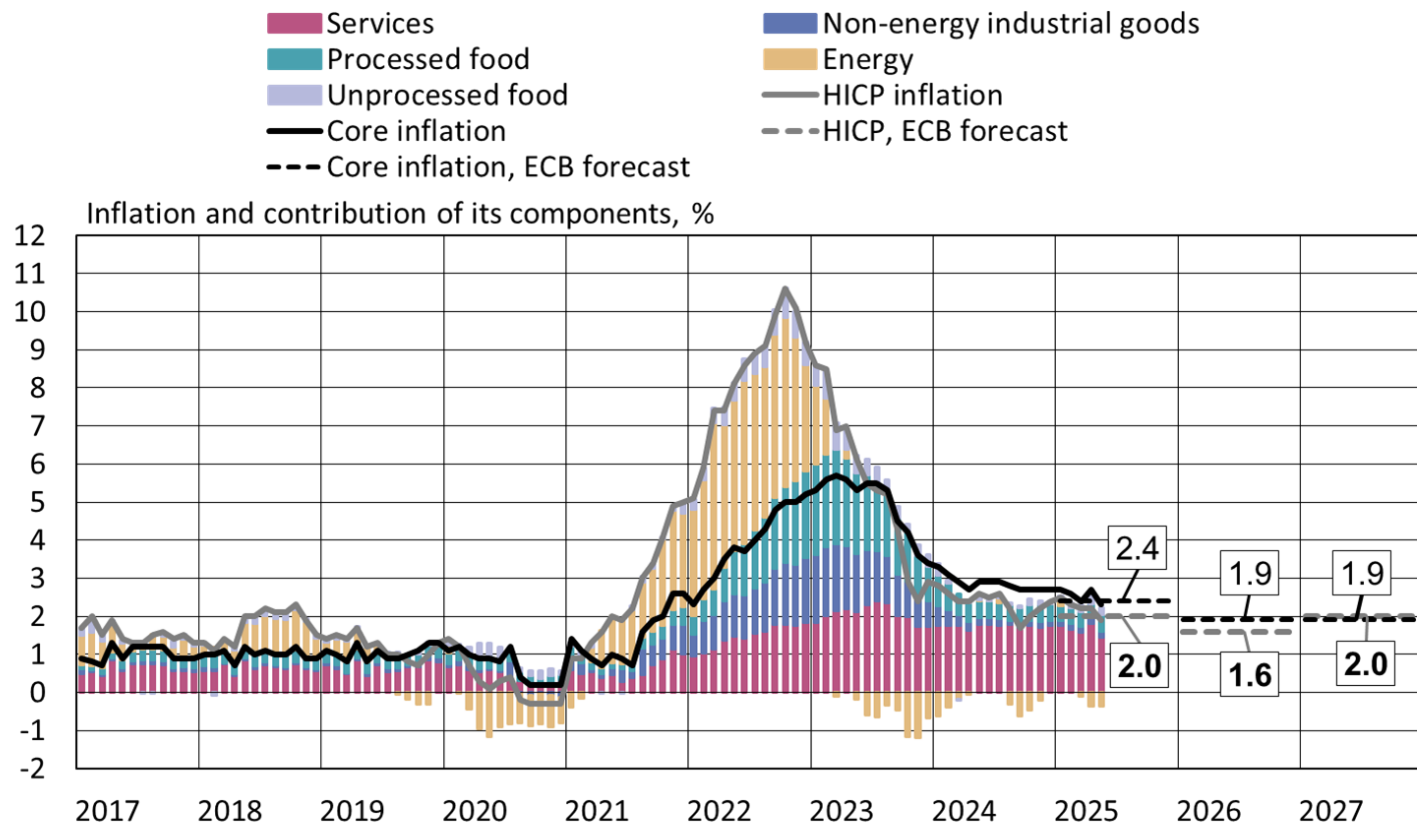
- China leaped to a superpower status, but has its own challenges
- India fastest growing G20 country
- Asia's century under way – threatened by conflict in the South China Sea?

# Growth in the euro area is clouded by trade tensions and elevated global uncertainty



- The ECB's June forecast: euro area economy is gradually strengthening as real household income growth improves purchasing power.
- Interest rate cuts support gradual strengthening of growth.
- Economic risks are on the downside.

# Inflation is currently at around the ECB's 2% medium-term target



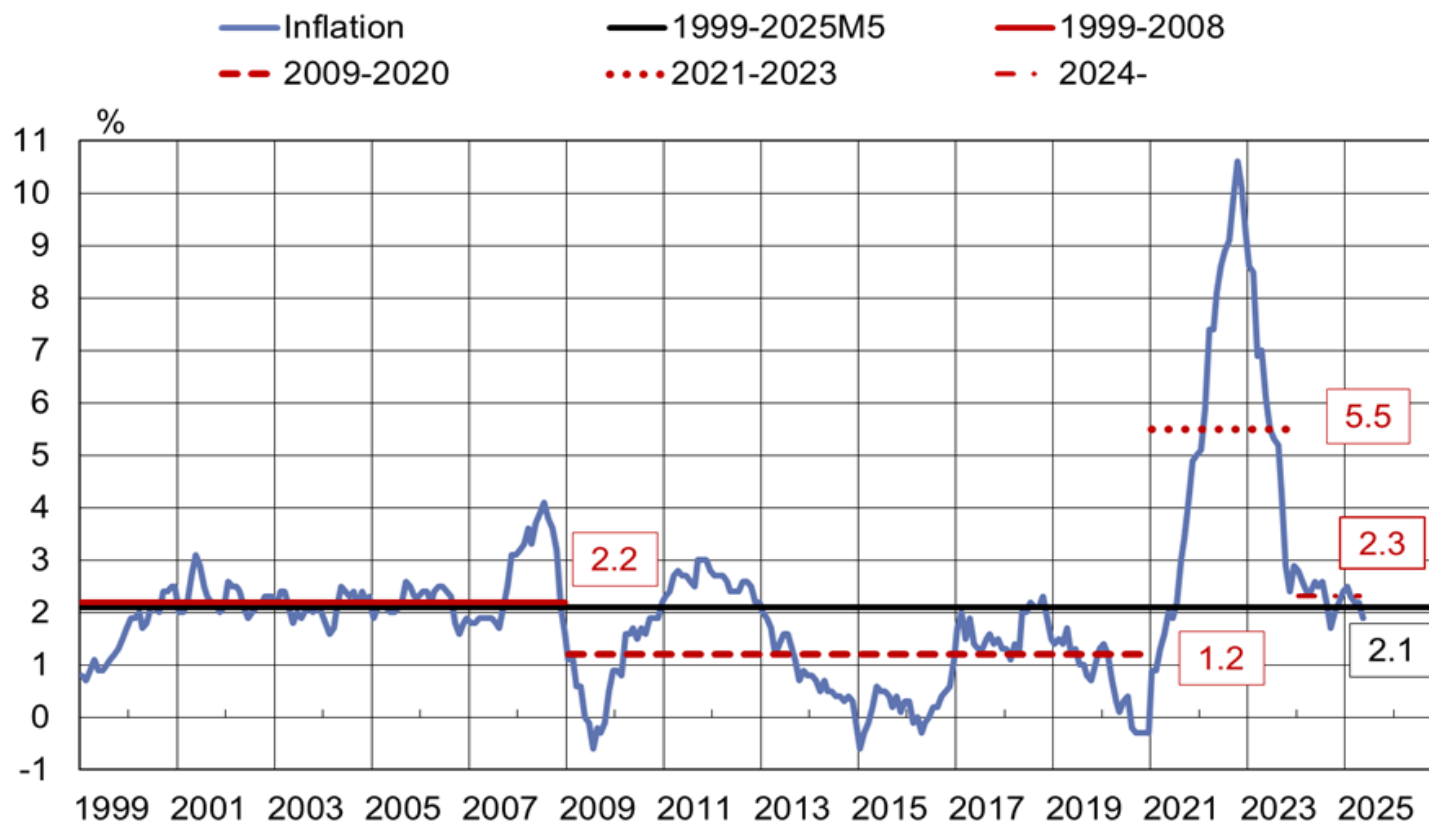
Sources: Eurostat and ECB.

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- The ECB's target since 2021 has been a **symmetric 2% inflation target over the medium term**.
- Inflation is slowing below the ECB's 2% target in the short term, mainly due to falling energy prices and euro appreciation.
- Higher tariffs are putting pressure on prices. On the other hand, the damage to economic growth from the trade war is also weighing on the inflation outlook.



# Three and a half periods of euro area inflation, 1999-2025

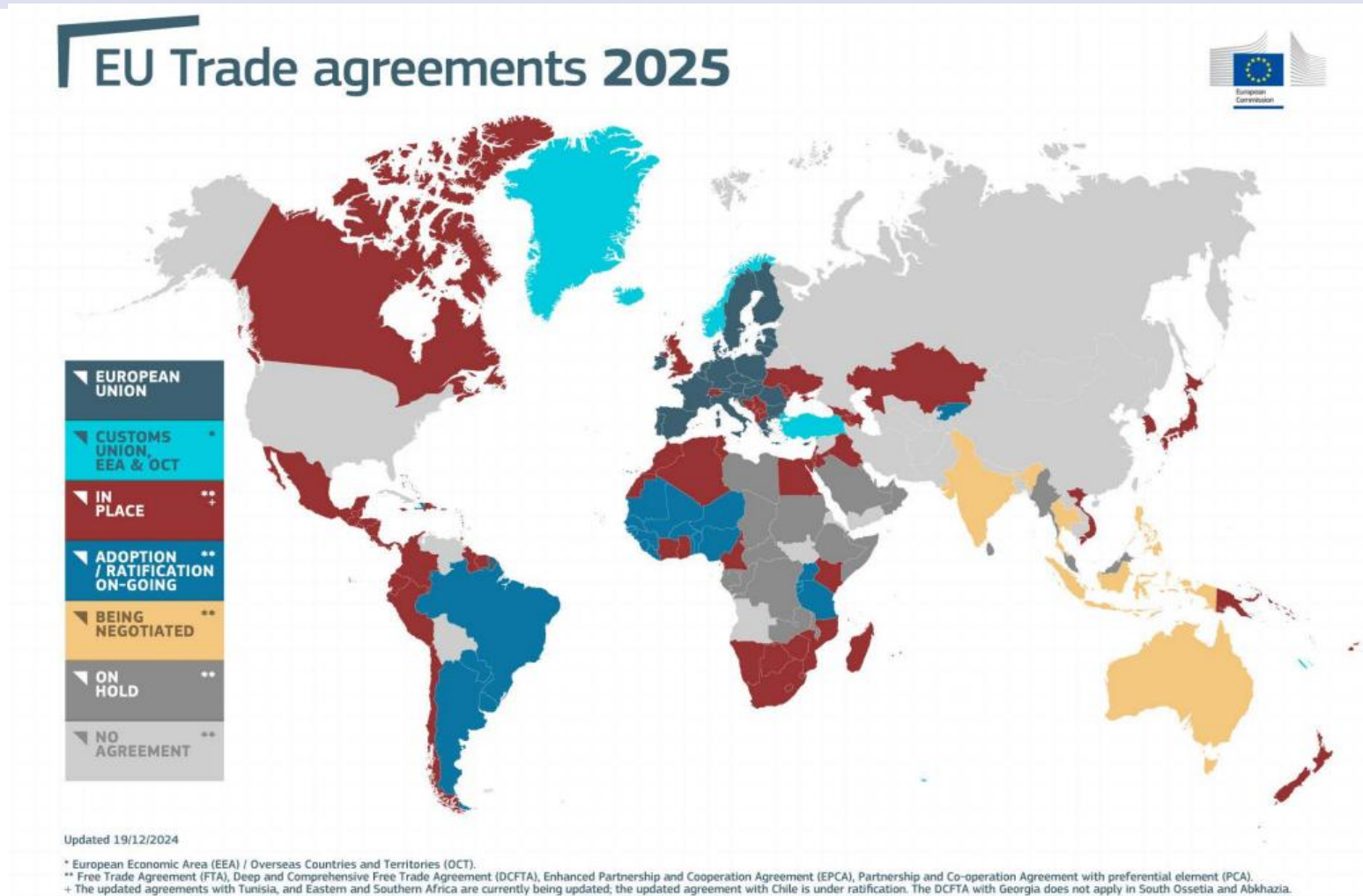


Source: Eurostat.  
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# 1. Europe is under challenge from the world of geopolitics – investment needed now in security and defence

- All of Europe must invest substantially in security and defence.
- Europe's external security is a European public good.
- Necessary investment in defence is having to be made in an environment where public finances are under pressure.
- Defence spending can boost productivity growth if it supports private innovation, but benefits aren't automatic.
- Common European solutions – operational and financing – are also needed.

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



## 2. Green transition is a short-term challenge, but medium to long-term benefits are obvious

- Amid acute security concerns, the longer term challenges of climate change and nature loss have not disappeared.
- The price of energy is a considerable burden for European competitiveness.
- The green transition and economic growth are not mutually exclusive goals.
- Decarbonisation is not just climate action – it's a geopolitical investment.



### 3. Europe is lagging the US in productivity growth – it is critical to revitalise economic dynamism

- Europe must find ways to increase productivity. The single market must be finalised and investment made in human capital and research.
- Achieving the long-run benefits of the green transition and increased defence spending requires decisive action.
  - Ensuring long-term fiscal sustainability would reinforce Europe's strategic autonomy
- Europe's path to renewed dynamism rests on essential investments in defence and the green transition and on fully capitalizing on its rich human capital.

# Conclusions: Europe's triple test

## ✓ Defence

Europe must take greater responsibility for its own defence.

→ Common procurement and coordinated investment are essential for scale and efficiency.

## ✓ Decarbonisation

The green transition is not a cost—it is a long-term strategy for energy security, competitiveness and innovation.

→ Decarbonisation is both a climate goal and a geopolitical imperative.

## ✓ Dynamism

Europe must close the productivity gap with the US.

→ Invest in human capital, attract global talent, deepen capital markets and foster innovation ecosystems.

-  **Strategic action across these three fronts will shape Europe's economic future and strategic autonomy.**



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in science we trust.*

