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How to navigate constant geopolitical turmoil in central banking?: A European Perspective

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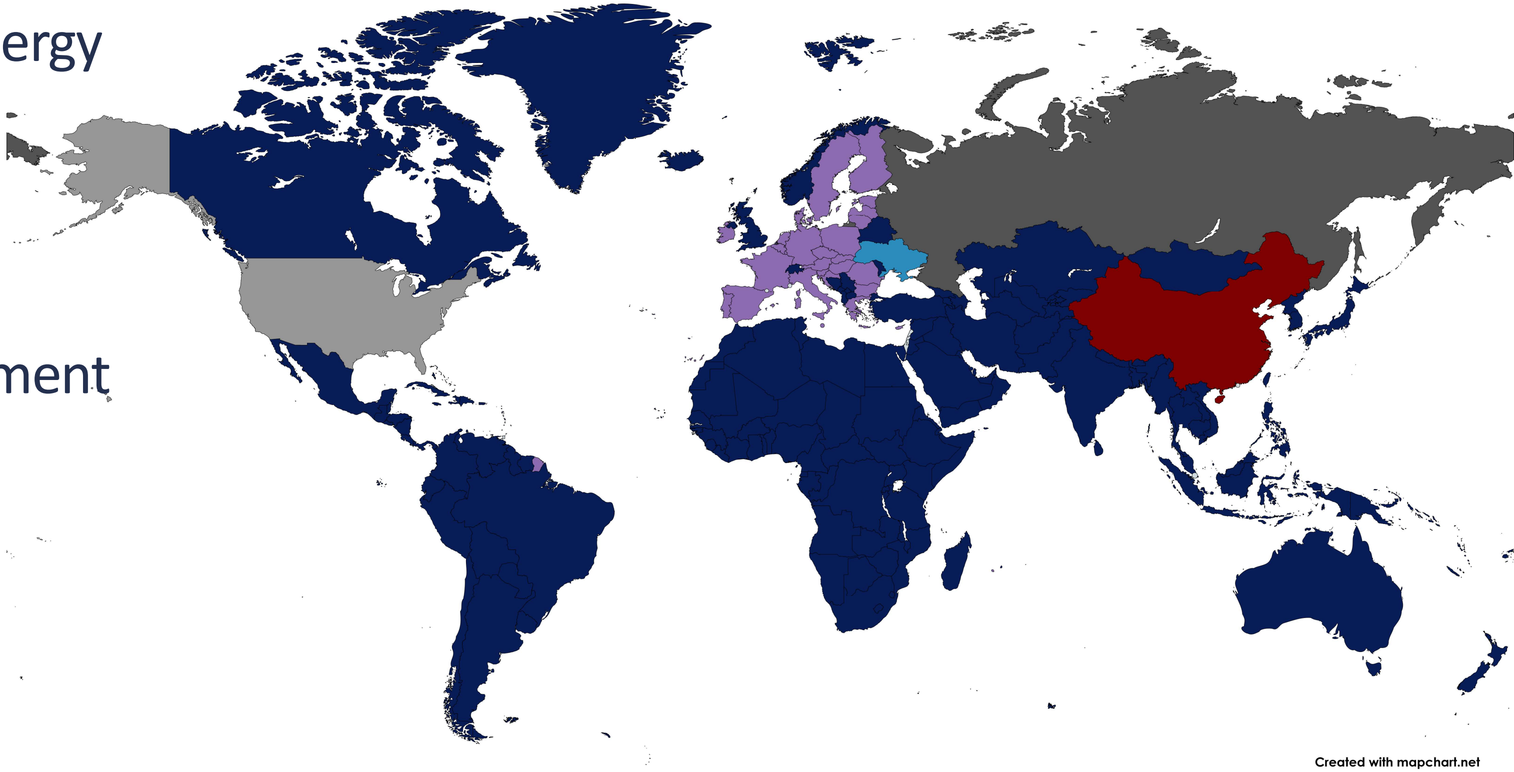
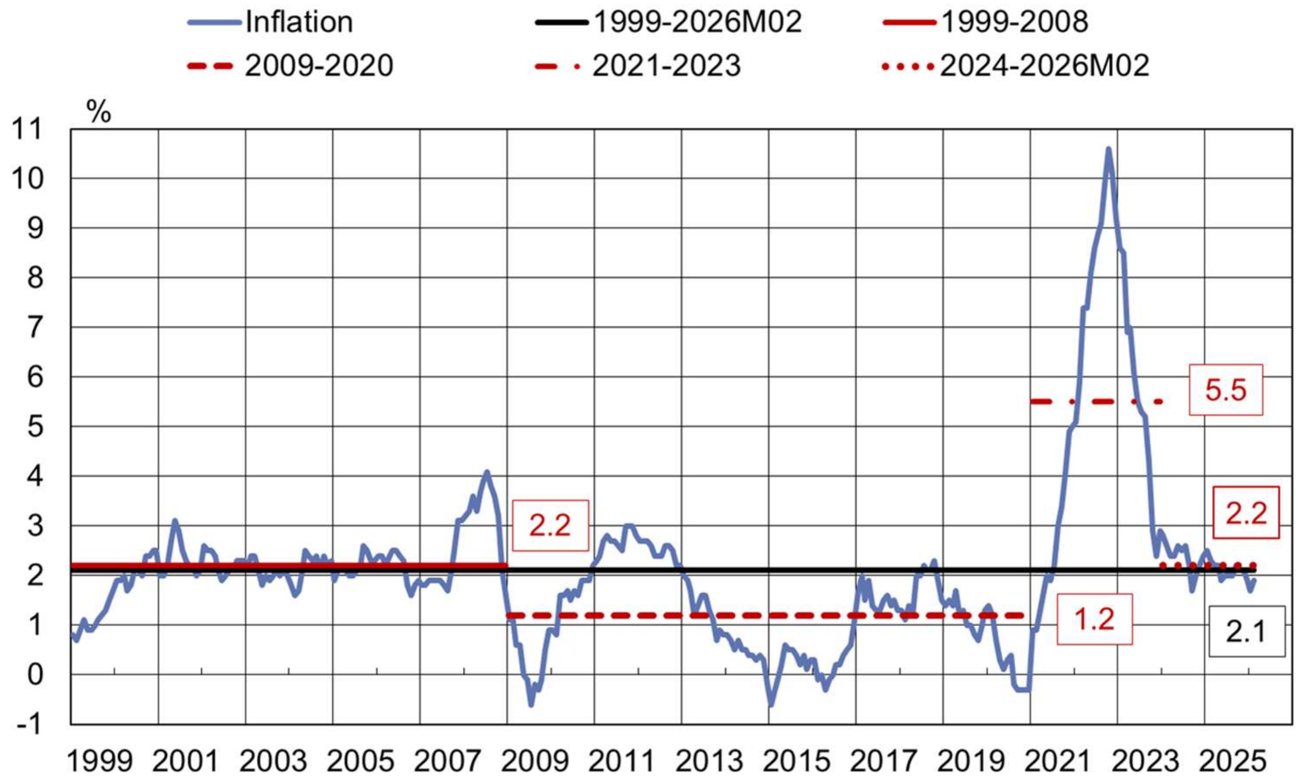
Geopolitics dominates the global economic outlook – uncertainty has yet again increased

- War in the Middle East and its ramifications to global energy markets and prices
- War in Ukraine
- Greenland
- European defence investment
- Tariffs and trade policy
- China and Taiwan



Four periods of euro area inflation 1999-2026



Source: Eurostat.
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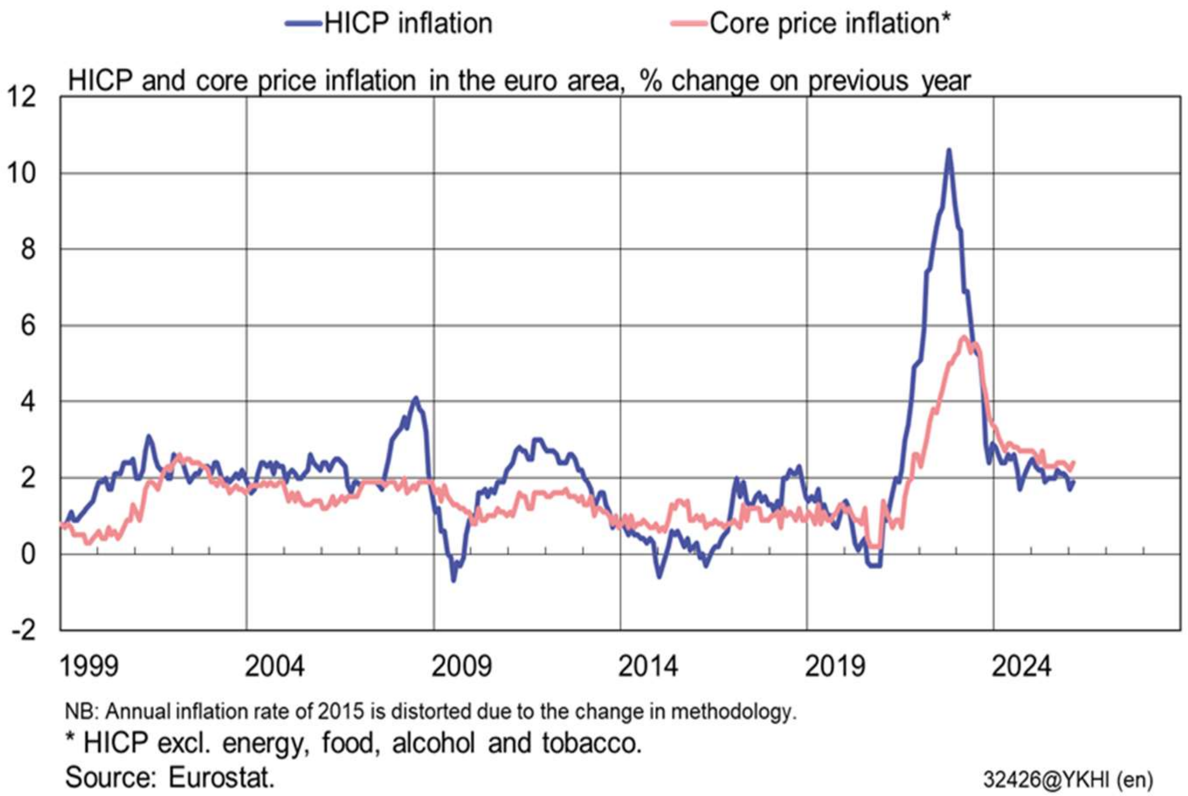
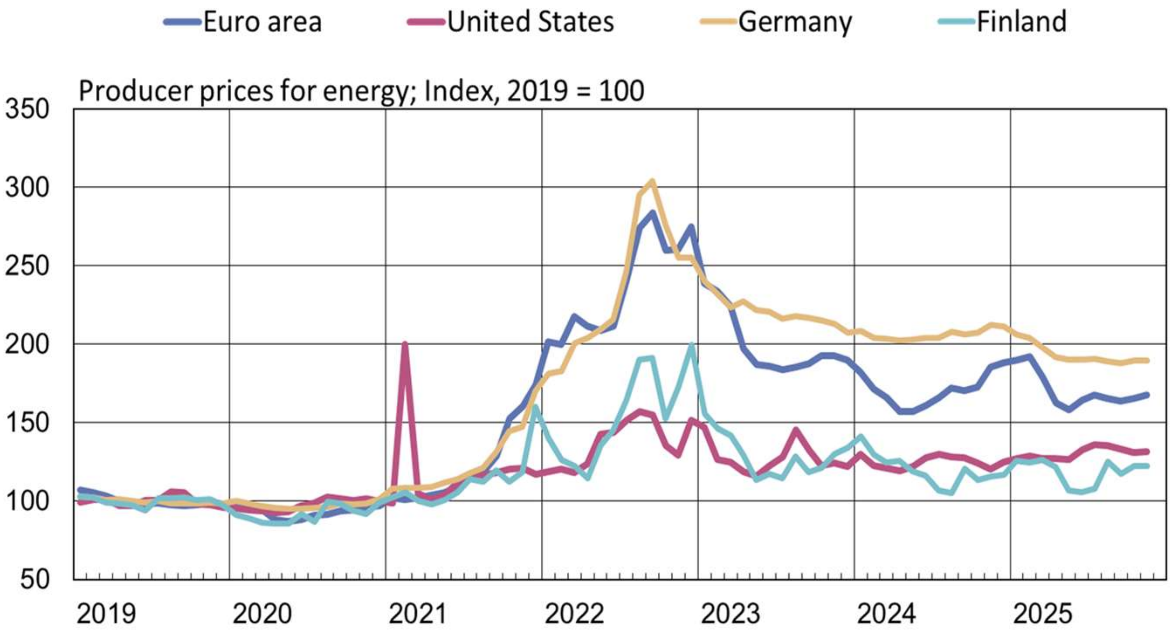
No two shocks/crises are alike



- Geopolitical shocks are complex events. They do not only raise oil and gas prices. They also increase uncertainty and depress demand.
- Whether the oil shock will this time generate longer-term inflationary pressure depends on overall economic and labour market conditions.
- In line with its strategy of 2025, the ECB approaches this uncertainty with the help of scenarios.

Energy costs burden euro area industry – increases vulnerability to shocks, weakens competitiveness



Sources: Eurostat and BLS.
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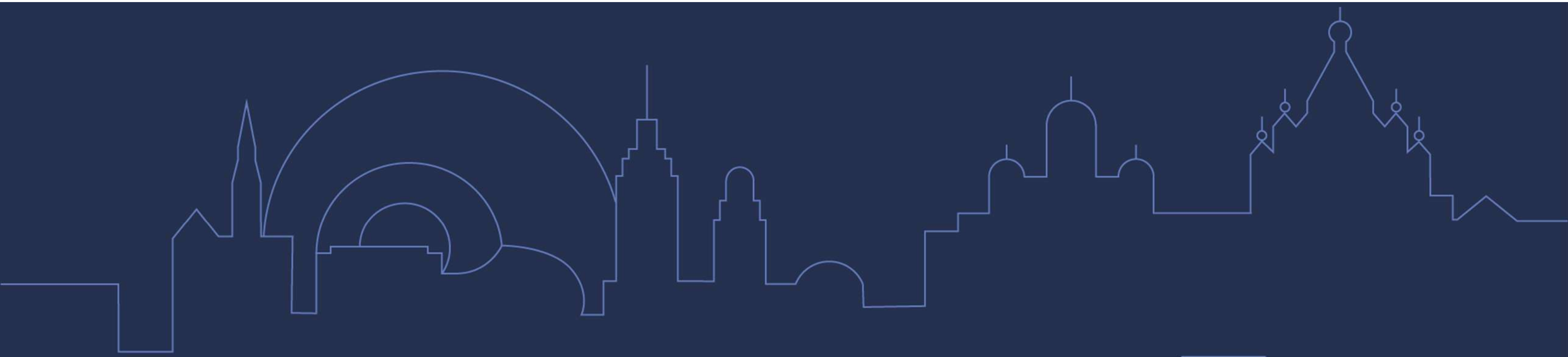
- Energy prices in Europe started to rise in 2021. The Russian attack on Ukraine further aggravated the situation.
- Europe’s transition from fossil fuels to renewables and nuclear has progressed unevenly – vulnerability in energy security remains a weakness.
- The war in the Middle East underlines that the green energy transition is vital for Europe's strategic autonomy and competitiveness, and for climate.

Conclusions: Europe's strategic triple test

- Three D's of European resilience:
  - **Defence →** Europe must take greater responsibility for its own defence and pursue coordinated investment and procurement vital for scale and efficiency.
  - **Decarbonisation →** The green transition is both a climate goal and a long-term strategy for energy security, competitiveness and innovation.
  - **Dynamism →** Invest in human capital, attract global talent. Deepen capital markets, cut the red tape and foster innovation.
- Strategic action across these three fronts will shape Europe's economic future and strategic autonomy.
- Monetary policy acts as a steady hand in a messy world.



Securing stability, in science we trust.