

SUOMEN PANKKI
EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Monetary policy in times of geopolitical tensions and technological disruption

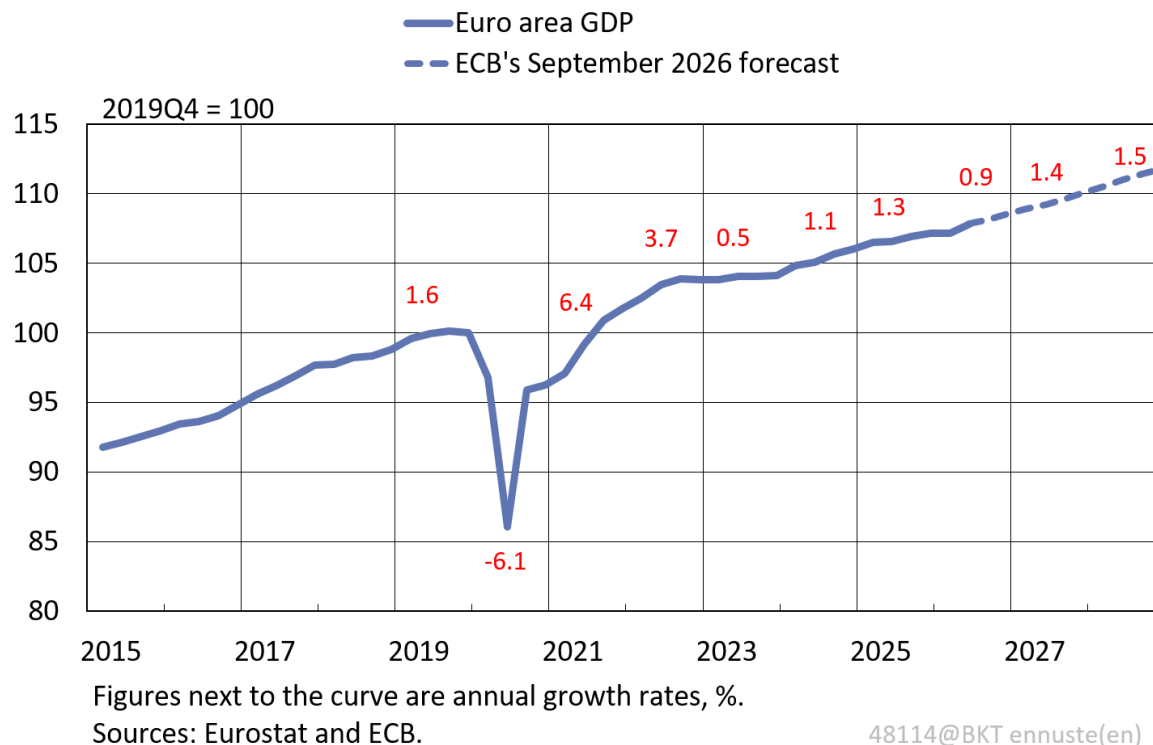
CEPS Macro Group
20 October 2026

Governor Olli Rehn
Bank of Finland

Europe has shown resilience, but is under geopolitical and technological cross-pressures

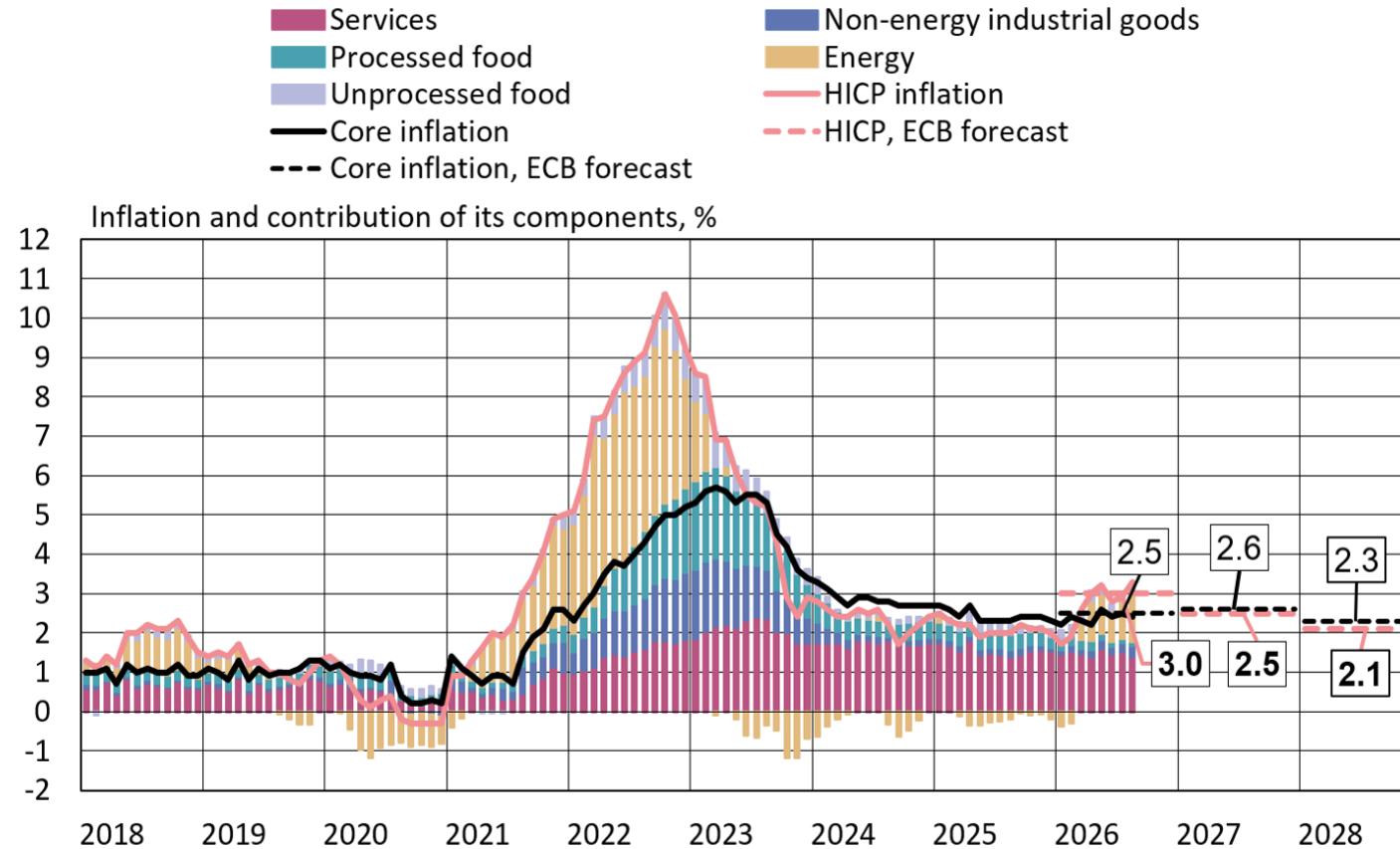
- Europe is facing a double political challenge: geopolitical pressure from outside and political polarization within.
- Two countervailing forces in the world economy: the AI investment boom vs. the Iran war and the wider Middle East conflict.
- For euro area inflation, the driver is energy prices,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

Euro area growth has held up amid yet another energy crisis



- 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.

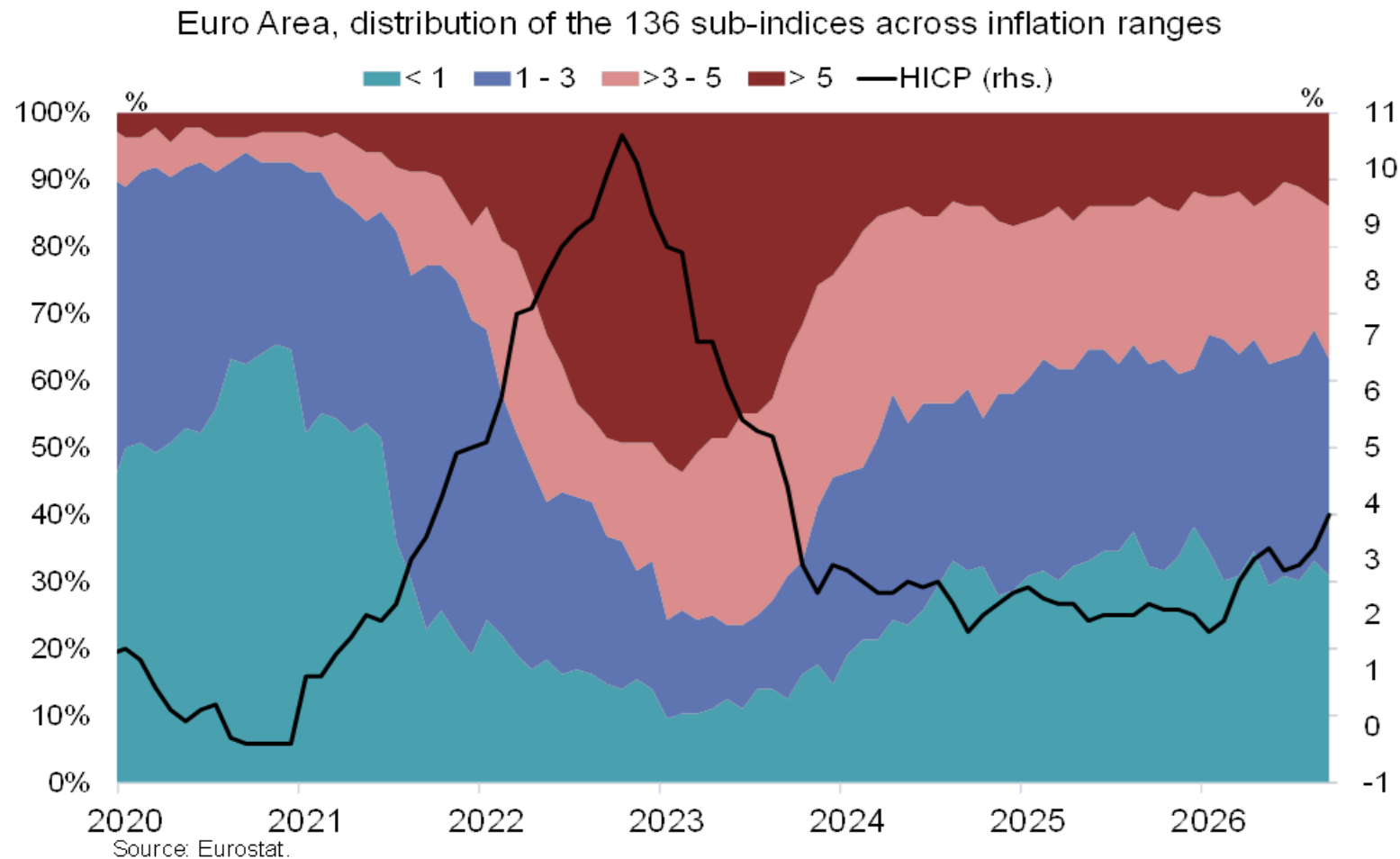
Inflation is above target – the energy shock is not over yet



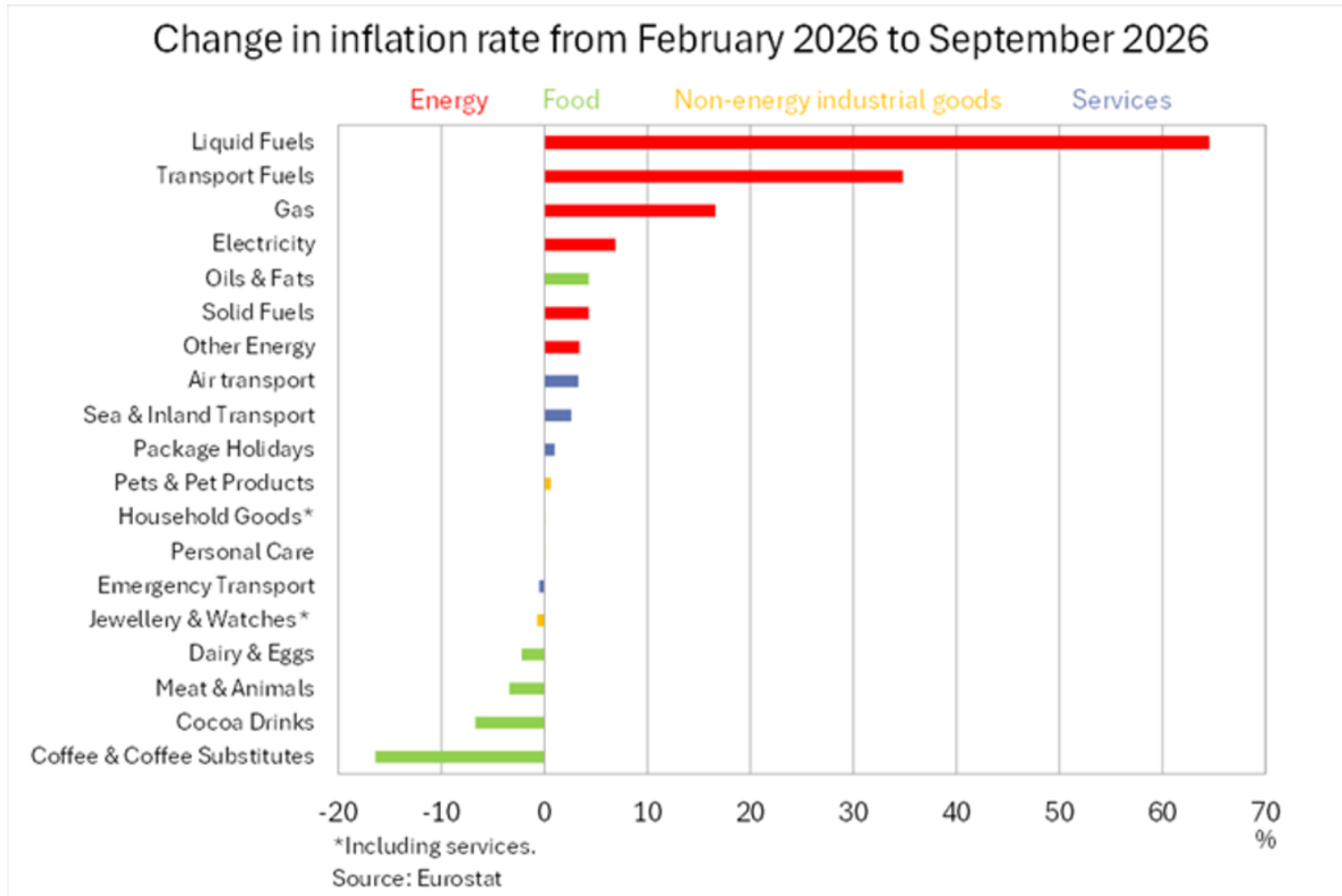
Sources: Eurostat and ECB.

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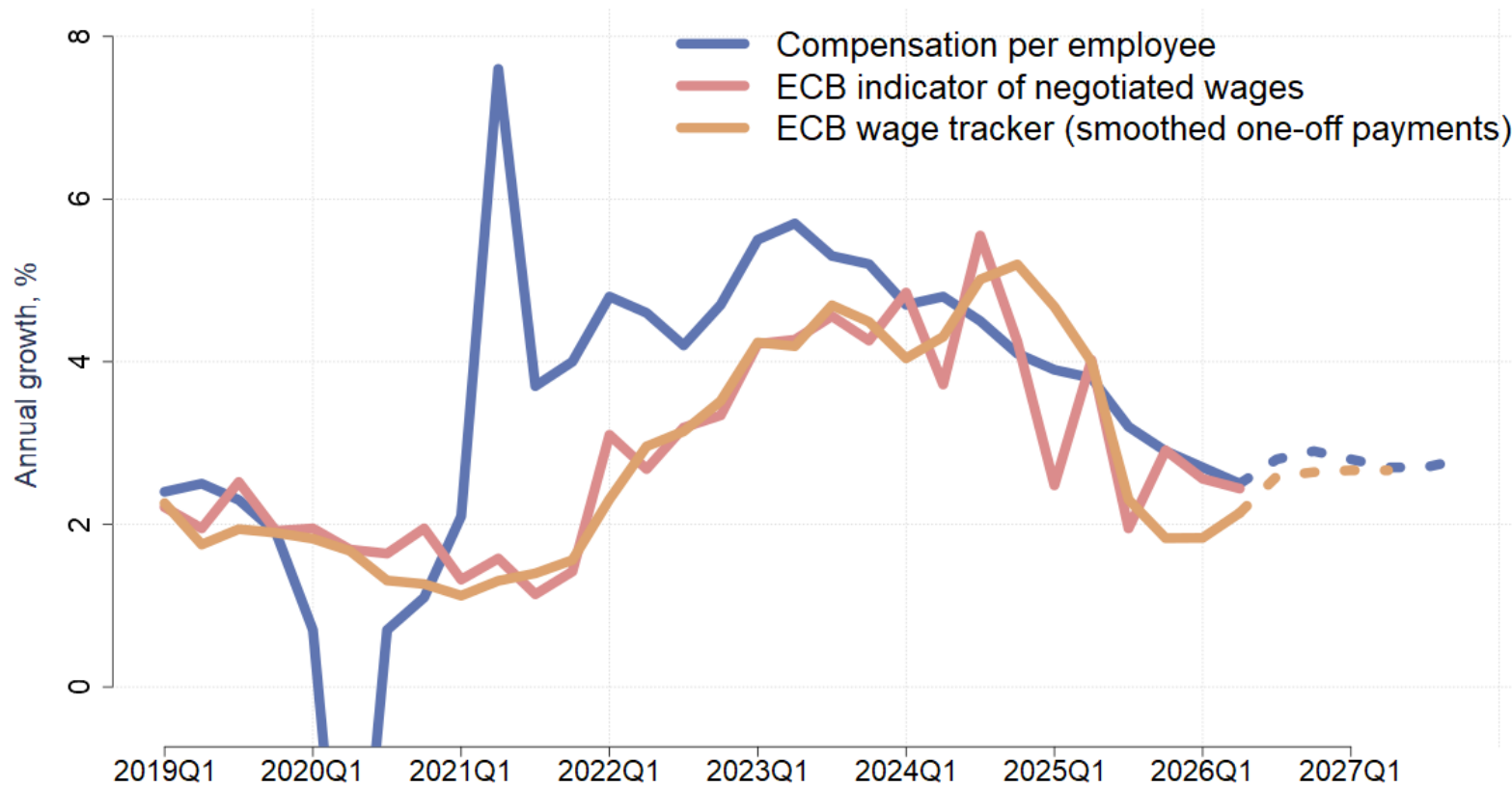
So far, no clear signs of inflation becoming broad-based – but upward risks have increased lately



No major inflationary impact beyond energy-related items until now



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.

The ECB's framework for making monetary policy

- The inflation outlook and the risks surrounding it warranted an increase in policy rates.
 - Inflation has remained above the ECB's 2% target since the spring.
 - The conflict in the Middle East continues to be a significant source of uncertainty, and the full effects of the energy shock on inflation have yet to materialise.
- The ECB conducts monetary policy **with a medium-term orientation**.
 - The pass-through of higher energy prices to other prices has so far been more limited than initially feared.
 - At present, there is little evidence of second-round effects.
- Monetary policy decisions will continue to **be taken meeting by meeting and based on:**
 - our assessment of the inflation outlook and the risks surrounding it,
 - the dynamics of underlying inflation, and
 - the strength of monetary policy transmission.

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.



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

