

SUOMEN PANKKI
EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Global Economy: Fragmentation, Decoupling, or Slowbalization?

HKMA/ECB/BOFIT Conference
Hong Kong, 14 January 2025

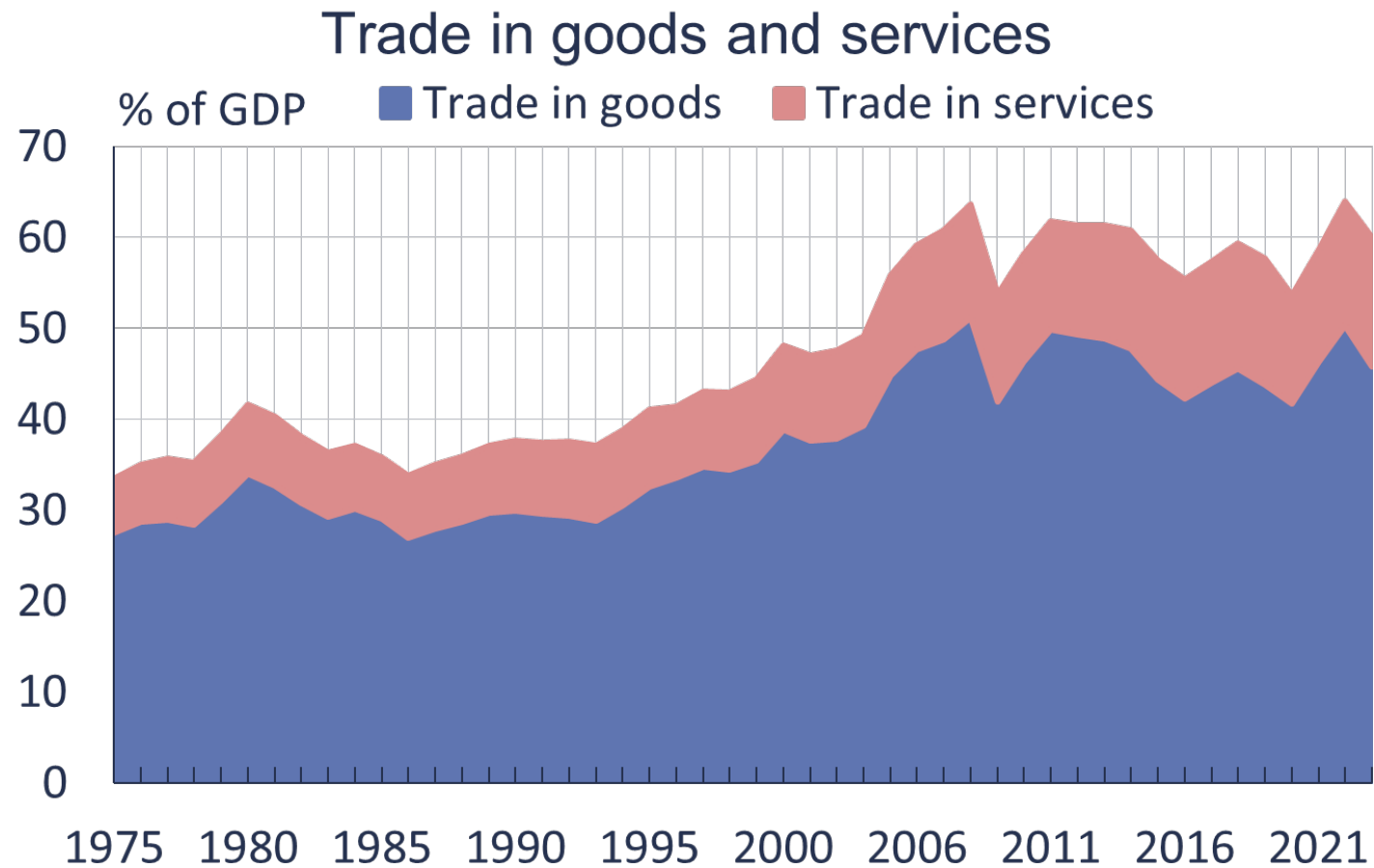
Governor Olli Rehn
Bank of Finland

A period of normalisation after hyper-globalisation?



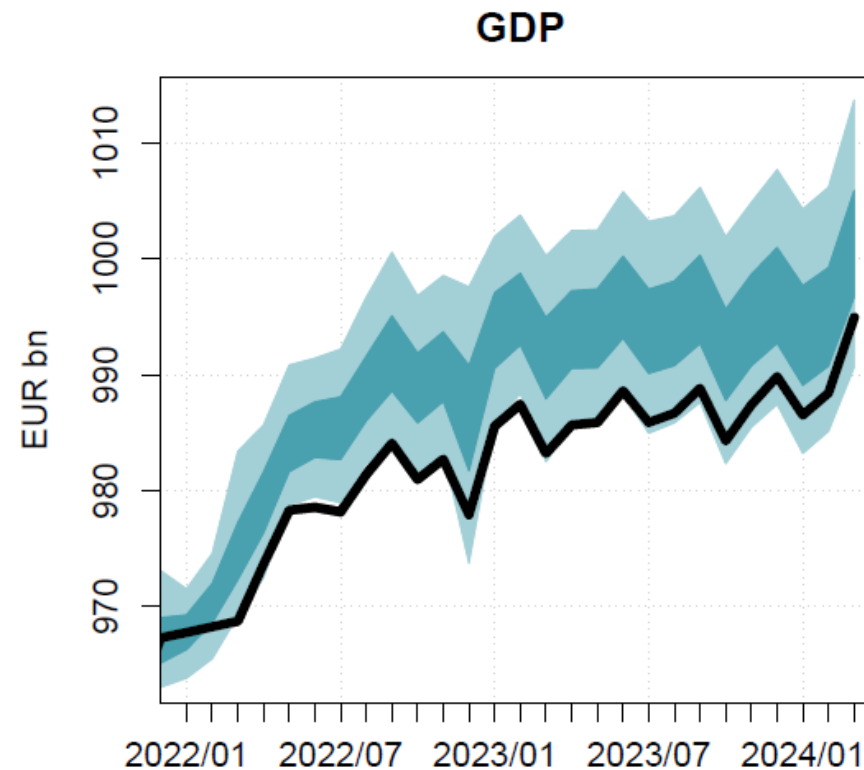
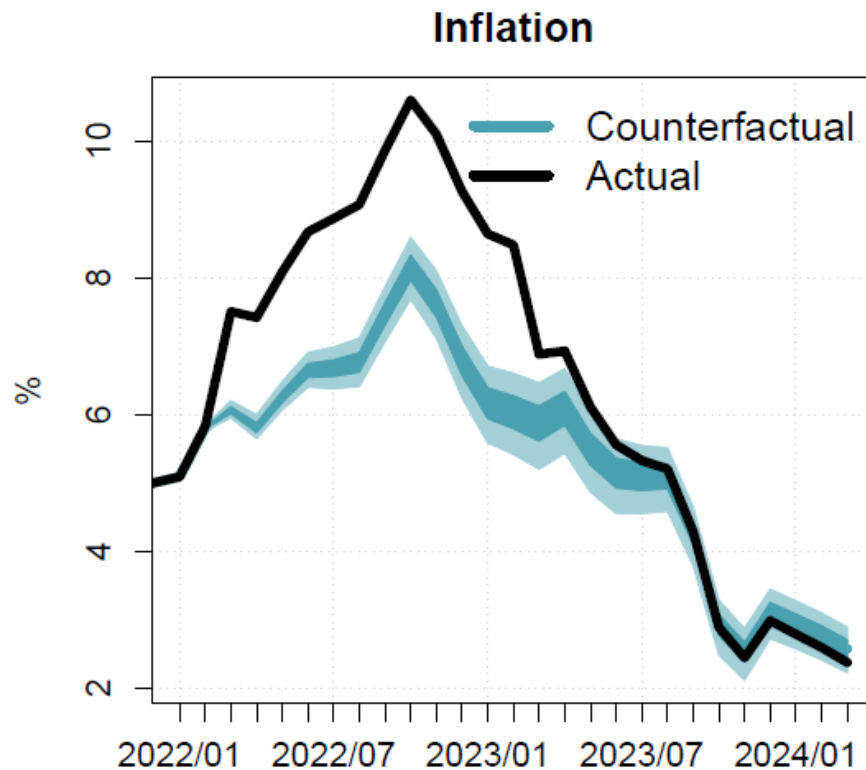
Sources: World Bank, World Development Indicators and Bank of Finland Institute for Emerging Economies (BOFIT).

Or a period of structural change?



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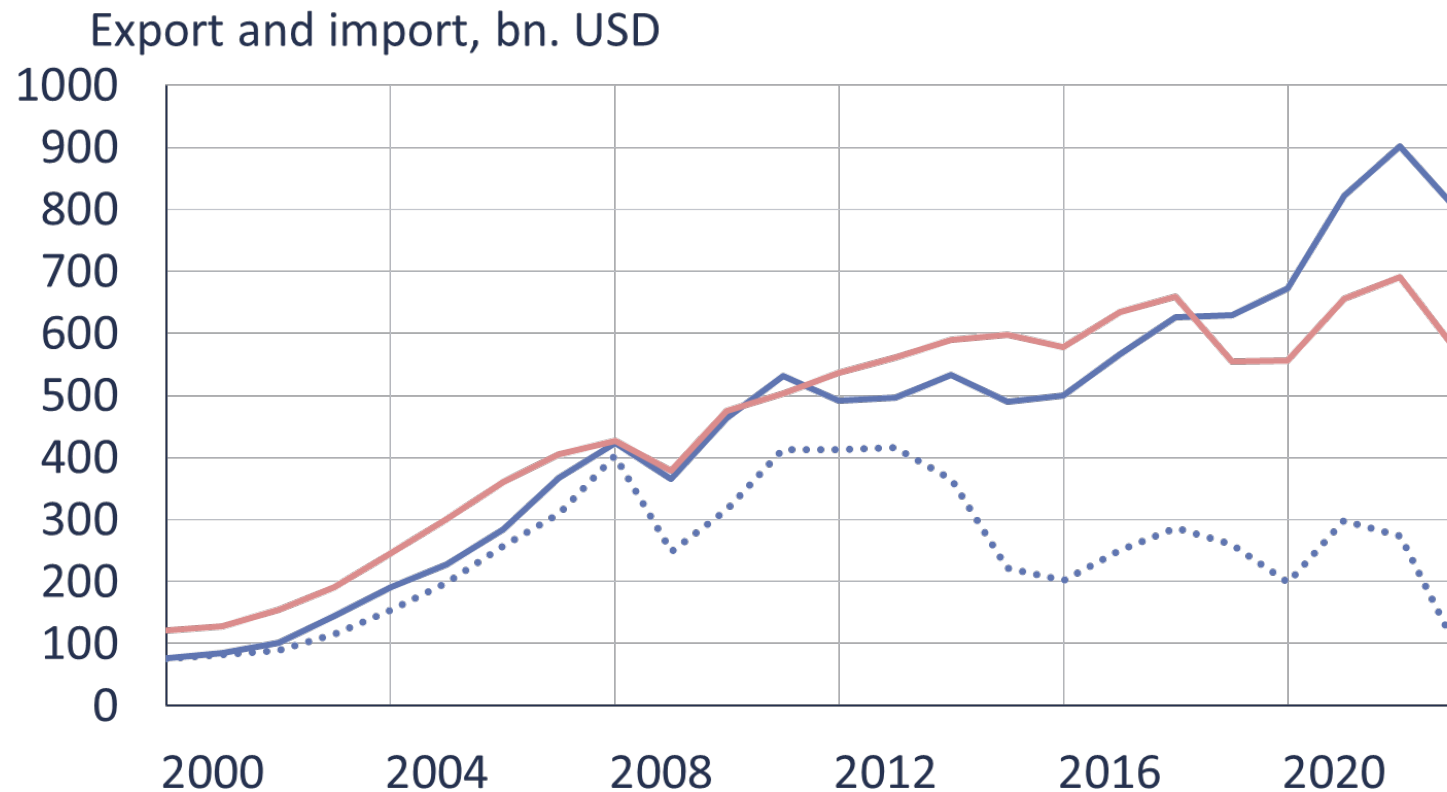
Geopolitical risks can materialise: Russia's invasion of Ukraine also harmed the euro area economy



Source: Anttonen and Lehmus (2024).

How do geopolitics and tariffs show up in trade data?

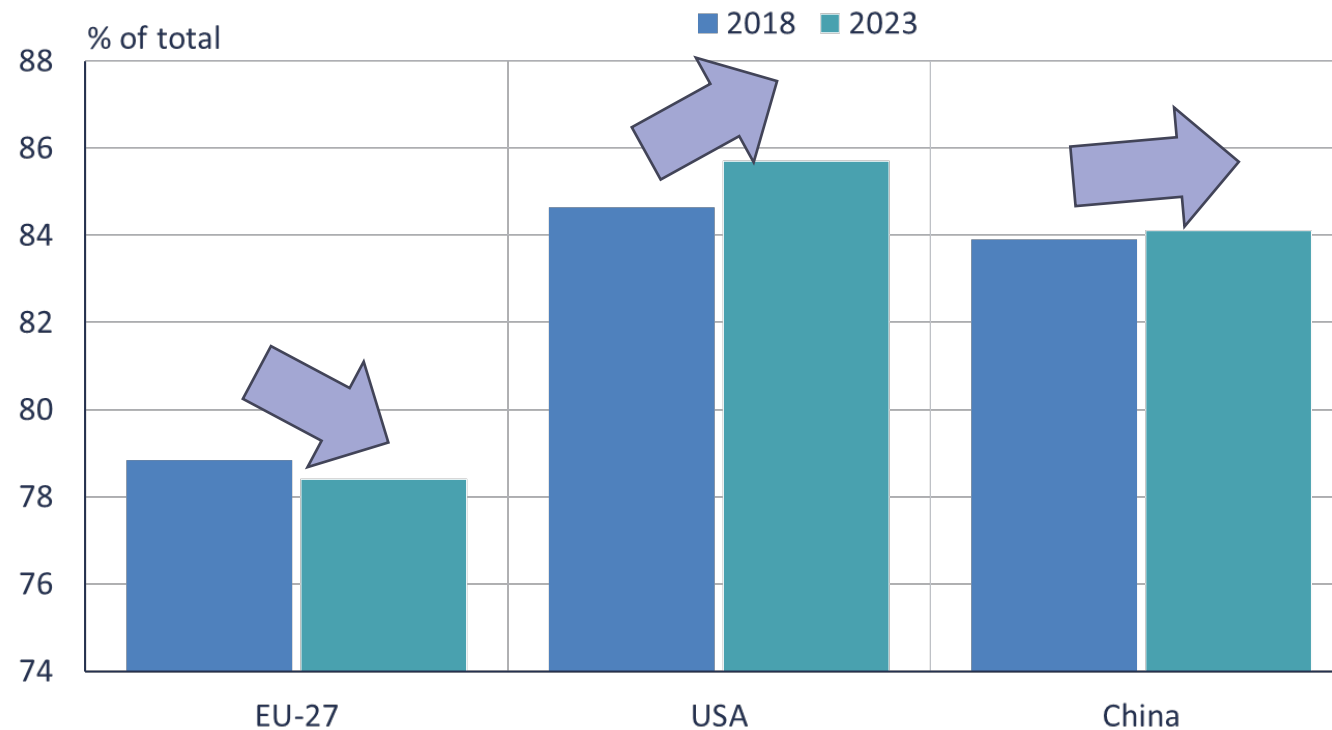
— EU trade with China — US trade with China ··· EU trade with Russia



Sources: International Monetary Fund and Bank of Finland Institute for Emerging Economies (BOFIT).

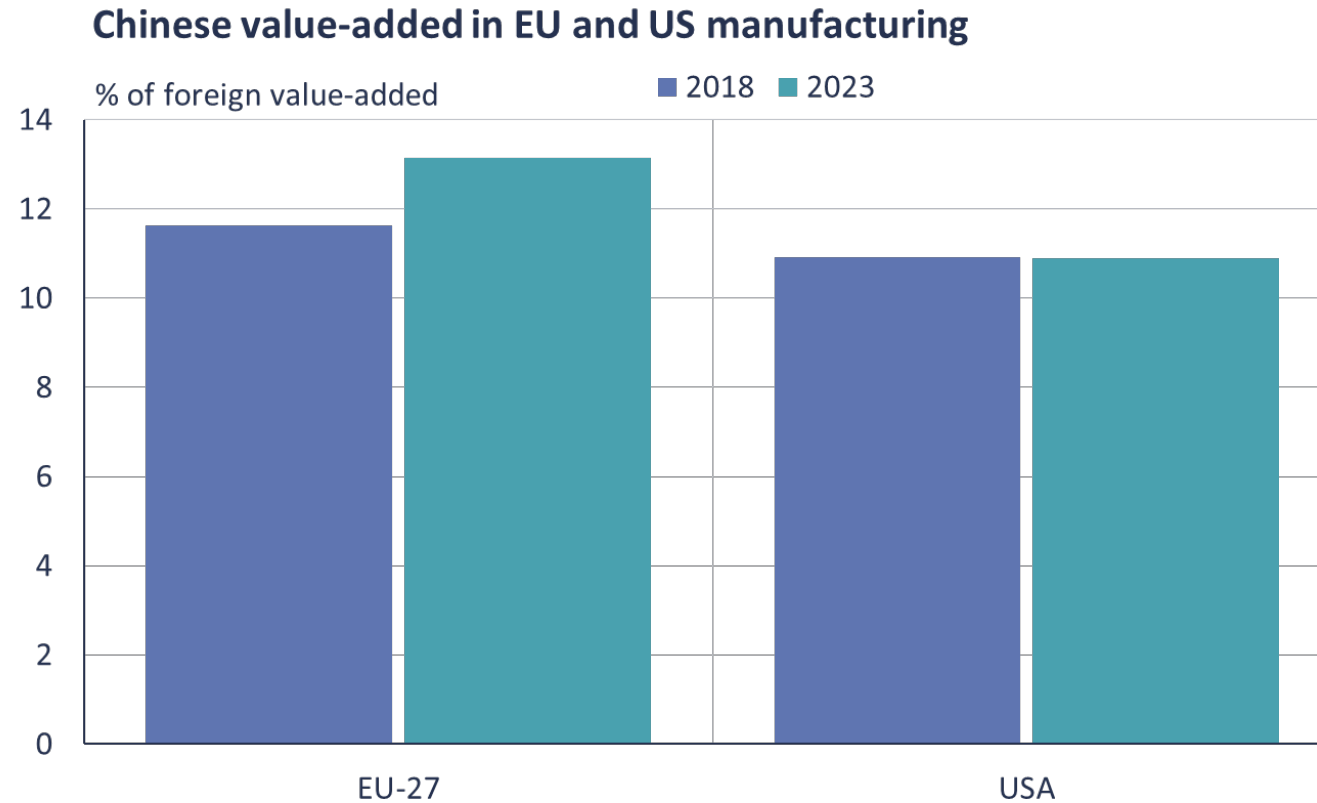
Domestic value-added has decreased in the EU

Domestic value-added in manufacturing in 2018 and 2023



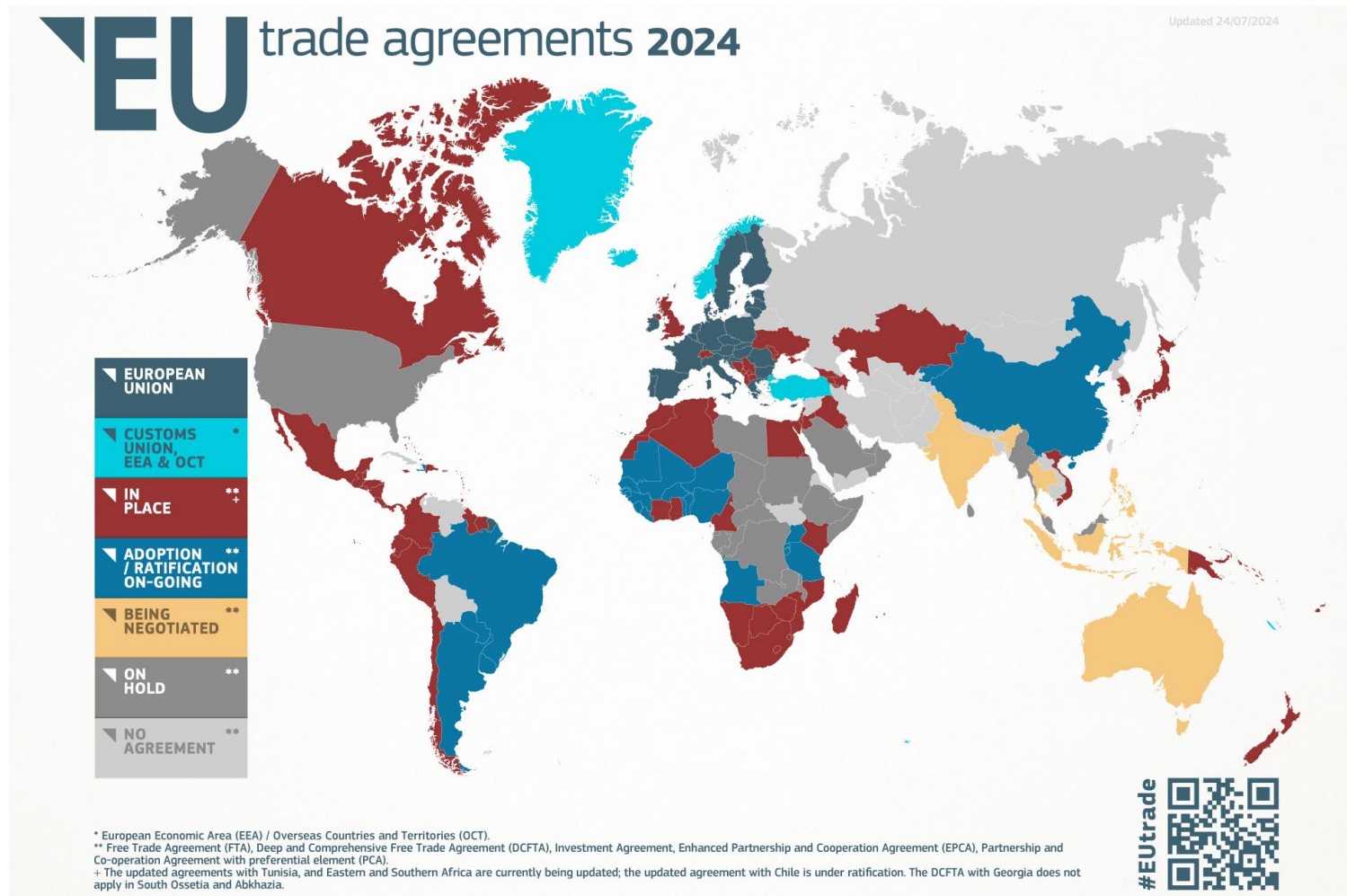
Sources: Bank of Finland Institute for Emerging Economies (BOFIT), based on Asian Development Bank (ADB) data.

Chinese value-added has increased in the EU and remains unchanged in the US

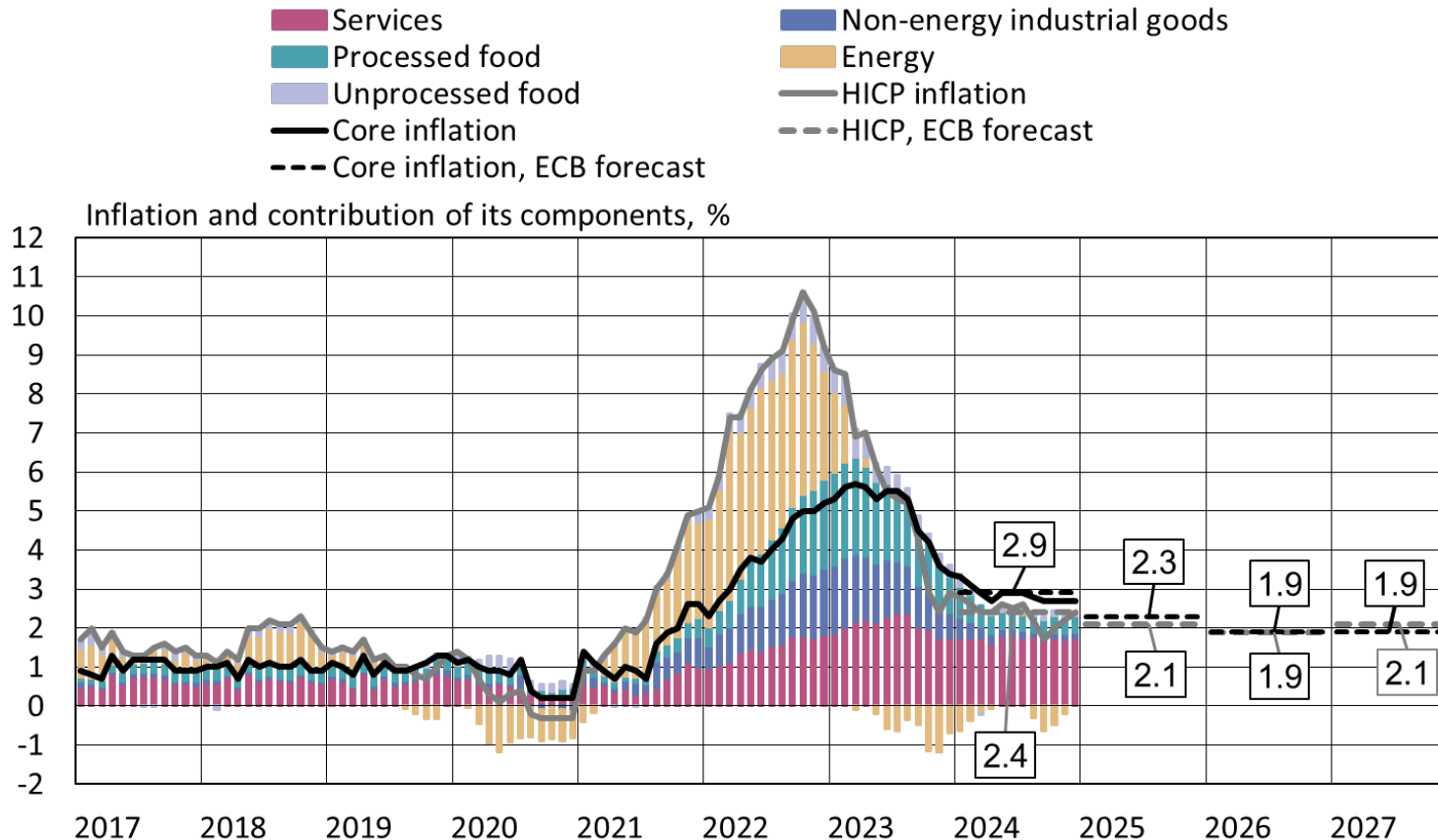


Sources: Bank of Finland Institute for Emerging Economies (BOFIT), based on Asian Development Bank (ADB) data.

EU free trade agreements in 2024: status report



Euro area inflation is stabilising at the 2% target



Sources: Eurostat and ECB.

32426@YKHikontrib2_varit (en)

- More signs that wage inflation is slowing.
- Most measures of underlying inflation, too, suggest that inflation will settle at around the ECB's 2% medium-term target on a sustained basis.

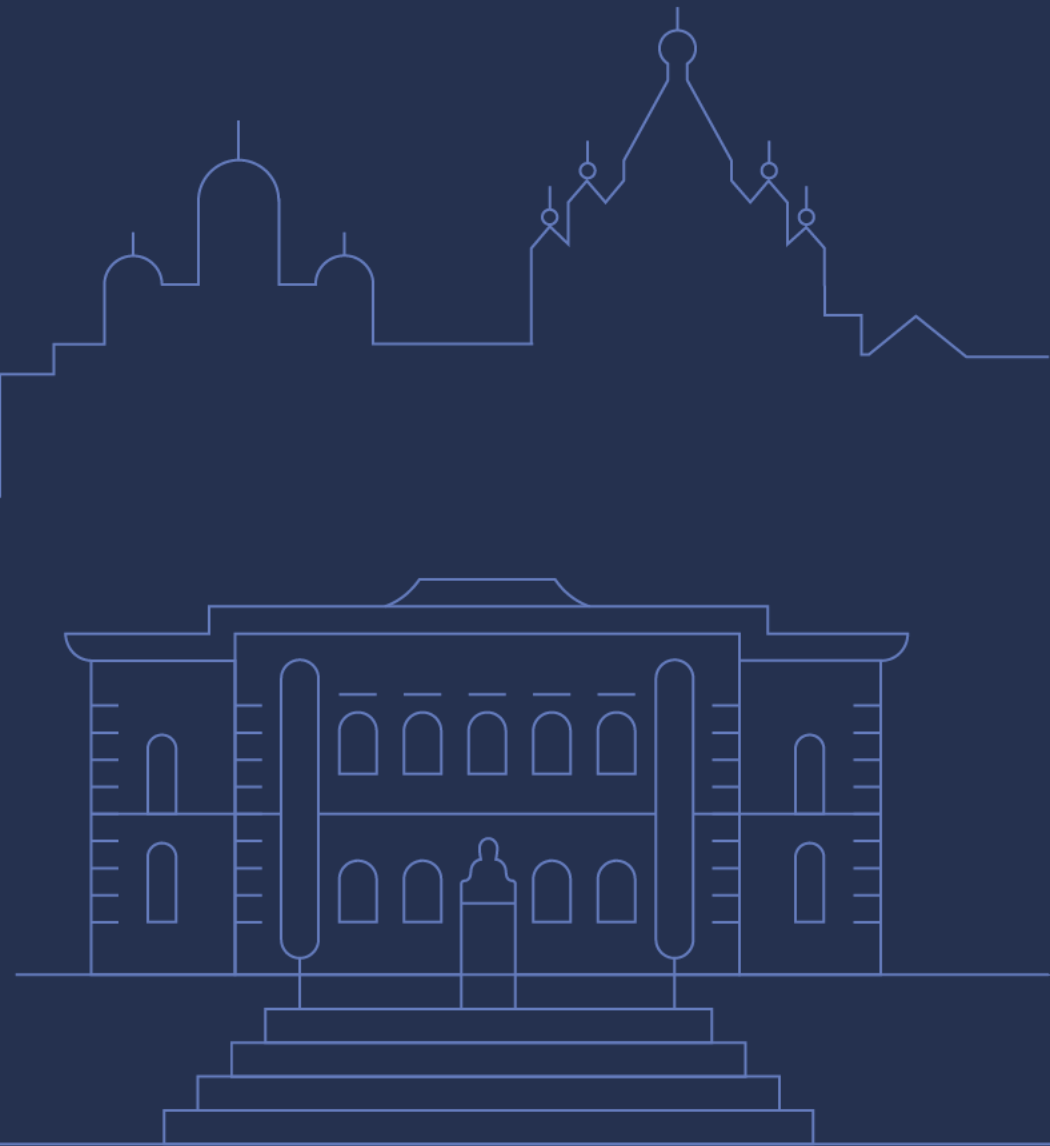
Concluding remarks

- Global trade has held up so far, perhaps even surprisingly well
- Share of services in total global trade has increased and will continue to do so
- Geopolitical shocks, broadly defined, can however have major effects on our economies and trade – no complacency!
- Higher tariffs between individual countries may often be circumvented – economies are resilient, and companies are quick to find alternative solutions
- But even this second-best adaptation to tariffs reduces economic wellbeing
- Large-scale trade war could be damaging to all involved



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Securing stability –
in science we trust.



Thank you!