

Letter from the Editors

In the January issue of *Funcas Intelligence (FI)*, we explore the defining economic and financial challenges of 2025, focusing on the interplay of geopolitical dynamics and policy responses. We begin by examining the diverging monetary paths of the Federal Reserve and the European Central Bank, with the former prioritizing inflation control while the latter seeks to revive Eurozone growth in the face of structural vulnerabilities. Next, we assess Europe's defense spending and trade outlook as the continent grapples with rising dependence and heightened fiscal pressures, compounded by complex geopolitical demands and transatlantic trade tensions. We then analyze the findings of recent EU climate stress tests on the financial sector, which indicate minimal financial stability risks from transition challenges but underscore the need for more nuanced methodologies to account for sectoral and geographic differences. Moving to the banking sector, we consider the outlook for European banks in 2025, where technological investments and fee-based revenue growth present opportunities, while macroeconomic, political/policy and structural risks loom. Finally, we delve into the intensifying focus on foreign investment screenings in both Europe and the United States, highlighting the delicate balance policymakers must strike between protecting national security and fostering economic growth in an increasingly polarized global landscape.