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Press release

EUROPE MUST BECOME LESS DEPENDENT ON THE UNITED STATES

In his outlook for 2025, BNP Paribas Fortis Chief Economist Koen De Leus looks at macroeconomic developments. He focuses on Europe and states that action must be taken and that the continent must aim at greater independence from the United States. Furthermore, his analysis of the Belgian growth potential shows that the most important asset for our country is an improvement in productivity. Chief Strategy Officer Philippe Gijssels expects a potentially volatile year on the equity markets, while he considers the long-term supply and demand dynamics for commodities to be favourable. He also notes that the evolution of the US dollar is less obvious than it seems at first glance.

A gradual recovery in Europe and a soft landing of the economy in the United States: that was the forecast until the re-election of Donald Trump. Geopolitical uncertainty has been relatively high over the past three years and BNP Paribas Fortis does not expect this to change much in the near future. The Fourth Turning¹ is here and is slowly approaching the end of its cycle.

"The evolution of inflation and, more importantly, economic growth will depend on what measures Trump will actually take," says Koen De Leus, Chief Economist at BNP Paribas Fortis. "The massive tariffs on imports and his plans for immigration are both inflationary. So is an expansive fiscal policy, but this is conducive to economic growth. This could prevent the Federal Reserve from cutting its interest rates much further. The European Central Bank will have to keep a close eye on how higher import tariffs in the United States, and in particular the uncertainty as to whether or not goods will be subject to these tariffs, will weigh on European growth."

Wake-up call for Europe

Donald Trump's re-election is a wake-up call for Europe, which has been dependent on the United States for its defence for far too long. In recent years, this dependence has increased, as Europe has replaced Russian gas with American LNG and Chinese exports with American ones.

In his report on 'The Future of European competitiveness'², Mario Draghi said that Europe needs to take urgent action. Businesses need to reduce their energy costs. Moreover, Europe must also invest and simplify its regulatory environment to close the huge innovation gap with the United States. Specific strategies are needed to boost the international competitiveness of Europe's industrial and services sectors, while also further reducing carbon emissions.

¹ Howe, N. (2023). *The Fourth Turning is Here*. Simon & Schuster. In this book, the author expounds on his theory that historical events can be associated with generational cycles, where one cycle spans the length of a human life. During the fourth phase, society is in crisis.

² Draghi, M. (2024). The Future of European competitiveness. In *European Commission*. European Commission. https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en



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In addition, defence spending needs to be increased and dependence on strategic commodities and technologies reduced.

Belgium

Economic growth in Belgium continues, supported by a slight improvement in sentiment among most businesses. The latest BNP Paribas Fortis nowcast projects growth of 0.3% in the last quarter, albeit based on a limited sample. Consumer confidence is also rising slightly and the housing market is starting to show signs of recovery. However, Belgium, will also be affected by the potential policies of the second Trump presidency.

What is Belgium's longer-term growth potential? BNP Paribas Fortis has based its analysis on the four components of GDP:

1. The size of the working age population;
2. The employment rate of this population;
3. The number of hours worked per year by workers;
4. Productivity growth per hour.

Koen De Leus: *"The slower growth of the working population and in particular the employment rate are putting future growth potential at risk. Moreover, according to projections from the United Nations, the Belgian labour force is set to start shrinking already from 2025 onwards. In addition, the significant increase in the employment rate in recent years will gradually slow down. Like the Study Committee on Ageing, we assume a ceiling of around 75% by 2034. This combination alone reduces real growth to just 1% a year or less, compared with the current growth trend of 1.4%."*

Improving productivity is the most important key to Belgian growth. Currently average annual productivity growth fluctuates around 0.5%. The adoption of artificial intelligence and possibly other exponential technologies could increase this figure. However, opinions on the expected impact are deeply divided. In a recent report, US investment bank Goldman Sachs predicted a cumulative effect on GDP of 9 percentage points over a 10-year period, which is in line with BNP Paribas Group's projection from 2030.

On the other hand, Daron Acemoğlu, the 2024 Nobel Memorial Prize winner in Economic Sciences, predicts that it could boost productivity growth by just half a percentage point over a ten-year period. Acemoğlu argues that slower adoption of artificial intelligence and less widespread automation explain the difference in growth forecasts.

Growth and inflation

BNP Paribas Fortis forecasts a boost related to artificial intelligence of 0.5% on average for a total productivity growth of 1% per year over the ten-year period. The real trend growth comes to 1.4%.

In the short term Belgium's growth rate is set to rise slightly from 1% to 1.2% in 2025, helped by the monetary stimulus and the reversal of momentum in some neighbouring countries, which are important trading partners. Inflation – still very high at 4.2% in 2024, due to the normalisation of energy components – will fall to 2.1%. There is a real risk that these forecasts will be revised downwards given the uncertainty surrounding Donald Trump's threat to raise import tariffs.

Equities

"2024 has been a particularly good year for equities so far, especially in the United States," says Philippe Gijssels, Chief Strategy Officer at BNP Paribas Fortis. "As in 2023, it is mainly the 'Magnificent Seven' that have led the market higher. However, more than this handful of technology stocks – in reality there are a little more than seven – led the charge in the bull rally. We observed that the rally was driven by a somewhat broader playing field across multiple stocks, sectors, themes and groups."

Nevertheless, stock market concentration reached a multi-decade high in 2024, with the Magnificent Seven accounting for 30% of the S&P 500's total market capitalisation. Such a high concentration, with a small cohort of stocks rising disproportionately, is a strong driver for passive investing (i.e. buying the index without selecting the stocks).

The US stock market outperformed other markets in 2024, a trend that began after the 2008-2009 financial crisis. Given President-elect Donald Trump and his policy priorities, it is difficult to see how a major rotation towards Europe and China can start in the short term. However, this could happen at some point due to the large valuation gap between the blocs. Given the long period of American exceptionalism, a continued focus on quality, both within and outside the tech industry, is a prudent choice. In view of the current geopolitical and economic uncertainty, we see the potential for a very volatile year ahead for the financial markets, where active management may once again take precedence over passive management.

Commodities

Overall, 2024 was not a spectacular year for commodities. This was due to **lacklustre growth in China** and the **strong US dollar**.

However, gold surged as central banks continued their gold buying spree. There were also rallies in a number of specific cases, most notably in the rare earths market. However, BNP Paribas Fortis continues to believe that this is just the beginning of the biggest bull market in history, especially for metals.

Philippe Gijssels: "In the long term, the demand-supply dynamic remains particularly favourable, especially as China starts to stimulate its economy even more to compensate for a possible slowdown in exports due to the imposition of import tariffs. Gold and silver continue to have their place in a long-term portfolio, both as a hedge against inflation and as a hedge against further geopolitical uncertainty."

Currencies

Most major currencies, particularly the euro-dollar exchange rate, did not fluctuate much last year. As a result, the currency market as a whole was not too volatile.

One exception, however, was the **US Dollar/Japanese Yen** currency pair. In August 2024, we saw a sharp appreciation of the Japanese currency followed by an unwinding of the carry trade (a carry trade involves borrowing at a certain interest rate in yen and then investing in other currencies offering higher returns). This caused quite a bit of volatility in the other markets.

2025 is likely to be a **volatile year** for the currency markets. Given President Trump's policies, there is a good chance that different blocs (United States, Europe, Japan, China, etc.) will grow at different rates and that central banks' monetary policies will also diverge. If US interest rates rise faster or fall slower, the spread over other currencies will widen, leading to an inflow into the US bond markets and a stronger US dollar.

Donald Trump has made **reducing the US trade deficit** a priority, which would be supported by a weaker dollar. It is therefore possible that there will be an agreement between the various blocs to weaken the dollar in exchange for a goodwill gesture from the US in the form of trade measures with less/lower tariffs on imports.

NOTE: this press release was written on 20 November 2024.

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