

EDITORIAL

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EUROPE'S QUIET METAMORPHOSIS, POWERED BY FIVE UNDERAPPRECIATED BOOSTERS

Out of the spotlight, Europe is quietly preparing to emerge from its post-pandemic underwater years like a nymph turns into a stunning dragonfly. The turmoil of the last year and a half has brought about "Europe's moment" in more ways than is being recognized. Europe isn't just emerging as the alternative safe haven of choice. It can count on five powerful boosters: rebounding industrial strength, established services dominance, tech acceleration, a governance sea-change, and favorable geopolitical winds.

Over the past year, it has become impossible to ignore that the world is in the midst of a profound, multidimensional rewiring. Much of what we took for granted for decades about geopolitics, technology, economic policies, and the very fabric of globalization (trade and capital flows) is being upended¹. And the epicenter of this whirlwind is none other than the architect and implicit leader of the previously prevailing global economic order: the United States of America.

All this turmoil has already made Europe look more attractive, as a haven of stability. Last week, the ECB's annual report on The International Role of the Euro revealed that the euro is catching up as the world's safe asset of choice. On multiple occasions, during recent episodes of market turmoil, the euro behaved more like a safe asset than the US dollar. In a world where stable inflation, responsible fiscal policy, predictable and stable structural policies, and level playing field can no longer be taken for granted, Europe stands out. Financial markets have noticed: the so-called convenience yield² on German bunds rose threefold from 30 bps to 90 over 2023-25. To the extent that all other bonds (sovereign and private) in euros are priced off German bunds, this benefits the entire Eurozone economy.

Europe can also count on five lesser-known boosters to surprise on the upside.

1. REPORTS OF THE DEATH OF EUROPEAN INDUSTRY ARE GREATLY EXAGGERATED

After growing at a faster clip than the United States for most of the last ten years, the EU's industry was dealt a severe blow by the energy shock of 2022, which hit it twice as hard as the US (in terms of energy expenditure relative to GDP). Industrial production fell by 6% from peak to trough—but it has been bouncing back since early 2025 above its pre-Covid level. Europe remains a net exporter of industrial goods, albeit it now has a deficit with China. Even against China, Europe retains competitive advantages in aerospace, pharmaceuticals, and a range of cutting-edge industrial equipment—most notably advanced semiconductor manufacturing and its supply chain including optics³. And while energy-intensive industries continue to struggle, EU industry is gradually shifting toward dynamic sectors.

Moreover, sectors such as defense, infrastructure (for clean energy, artificial intelligence, and single market connectivity), as well as sovereignty are also benefiting from strong tailwinds from public spending programmes due to span over the medium term, as well as a more pro-growth agenda of reforms at the EU level (see point 4 below).

2. EUROPE IS A SERVICES EXPORT SUPERPOWER

Europe's industrial legacy obscures a crucial fact: the European Union is a services export giant. In 2025, EU services exports reached USD 1.8 trillion, making Europe the world's largest exporter, far ahead of the United States by roughly 70%.

This sector generates a USD173.5 billion surplus—the largest in the world. And contrary to cliché, this is not mainly a tourism story. Tourism, at 13% of total services exports, does not even rank among the top three categories. Europe's strength lies above all in business services, telecoms and IT, and transport—precisely the kinds of activities that signal depth, scale, and competitiveness in a modern economy.

3. EUROPE IS NOT A TECH DWARF. IT IS A FAST-MOVING CATCH-UP STORY

Europe is often portrayed as lagging the US and China in tech, but the reality is more nuanced. The continent hosts many world-class firms, even if its share of the market capitalisation of the top 1,000 global tech companies remains well below its weight in global GDP and its start-ups are still too few and too small.

What matters, though, is the direction of travel—and Europe is improving fast. Over the past decade, the tech sector has expanded from 4% to 15% of GDP. Since early 2020, it has been the leading source of job creation, with high tech alone accounting for 23% of new jobs, or 1.6 million positions.⁴

The financing picture tells the same story. Venture capital investment in European start-ups nearly quadrupled between 2015 and 2025 and now exceeds China's. In green tech and quantum technologies, European start-ups are even raising more capital than their US counterparts. France is also emerging as a major hub in AI and cloud computing, with USD 110 bn committed in the past week to new data centers.

Talent flows are shifting too. As of last year, more tech talent is now moving from the United States to Europe than the other way around.

Europe has some catch up to do, but it now has the momentum to do it.

4. EUROPE IS FINALLY TREATING STRATEGIC AUTONOMY AND GROWTH AS URGENT POLICY PRIORITIES

The succession of unimaginable shocks that occurred since last Spring has done what Mario Draghi and his celebrated September 2024 report could not: it has jolted Europe out of complacency and refocused policymakers' minds on key must-haves—notably strategic autonomy and, in order to afford it, growth—while de-prioritizing the nice-to-haves.

1 See our editorial: [IMF Spring Meetings: Coming to terms with multiple regime changes with Realism, Resilience and Rewiring](#), 20 April 2026.

2 This reflects the premium financial markets are prepared to pay for the convenience of holding a safe and liquid asset. It reduces the issuer's borrowing costs compared to what macroeconomic fundamentals would suggest.

3 See our editorial: [Up against China's industrial surge, Europe has strengths but is seeking a strategy](#), 18 May 2026.

4 See also [Job creation in the technology sector is a driver of the Eurozone's labour market](#), BNP Paribas chart of the week, 19 November 2025.



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The new tech sovereignty package, unveiled last week, is a good example. It strikes a clever balance between preserving the benefits of openness and incumbent know-how while building domestic alternatives and helping them scale more quickly, including with public money and contracts. A month earlier came the Industrial Accelerator Act —“Made with Europe”—signaling the same shift in tone away from the dogma of previous decades that shunned state support and restrictions to open trade.

This follows a broader outbreak of pragmatism over the past year: delays to regulations on ESG, artificial intelligence, and bank capital rules, a consultation by the European Commission on banking competitiveness, a review of the ultra-restrictive merger guidelines, and a new “one Europe, one market” playbook with ambitious deadlines. Competitiveness is no longer secondary; it is becoming a central policy objective.

Even more encouragingly, member states have rediscovered the virtues of what Mario Draghi, in his recent *Karlspreis* acceptance speech, called “pragmatic federalism”: allowing a subset of willing member states to move ahead while others join later instead of blocking progress. The much-delayed capital markets union may be the next beneficiary, with the six largest member states recently backing centralised market supervision. Europe is not moving fast, smoothly or uniformly—but it is moving.

5. THE WINDS OF GEOPOLITICS ARE TURNING MUCH MORE FAVORABLE, AT LAST

The final booster is geopolitical. After years of being buffeted by adverse external forces, Europe may at last be entering a more favourable environment. Following its recent change of leadership, Hungary is no longer the blocking factor it was in recent years. The war in Ukraine appears closer to an armistice than at any point since its full-scale invasion by Russia. Ten years after the Brexit referendum, political sentiment in the United Kingdom has shifted markedly, with a majority now seeing the decision to leave the EU as a mistake. And the two leading contenders to replace the current prime minister are openly in favour of rejoining the EU.

At the same time, Europe is building and extending its economic and political relationships. Within the European Political Community, it is deepening ties with neighbours and Canada while cultivating newer partnerships, including with the Gulf. The inaugural Europe Gulf Forum in Athens last month was one illustration, and Gulf sovereign wealth funds directed 28% of their investments toward Europe in the first nine months of 2025, the highest share in at least five years.

The trade agreements concluded with Mercosur, India and Australia earlier this year reinforce the point. They are not just economic arrangements; they are signals of political intent. These shifts suggest that Europe is no longer merely adjusting to a harsher world. It is showing agency and taking steps to benefit from the new map being drawn rather than being reduced to the proverbial grass on which the elephants—the US and China—fight.

NONE OF THIS MEANS EUROPE'S PROBLEMS HAVE VANISHED

Growth remains too weak, fragmentation too real, and policy execution too slow for triumphalism. But the broader picture has changed more than many admit. The continent is entering this new era with more industrial resilience than assumed, genuine services firepower, more technological momentum than credited, and a policy and geopolitical backdrop that is becoming less of a handicap and more of an asset. Europe's moment may not arrive with a bang. But it has already begun.

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