

EDITORIAL

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WALKING ON A FINE LINE, ADVANCED ECONOMIES CONTINUE TO SHOW RESILIENCE

Advanced economies are continuing to show resilience in the face of the US trade war. Despite significant fluctuations in trade in the first half of 2025, global trade has been broadly unaffected so far. As trade links with the United States weaken, trade is shifting towards the rest of the world. The combination of headwinds (US tariffs, uncertainty) and tailwinds (low oil prices, Fed rate cuts, European measures) explains the gradual nature of the slowdown (in the US) and the recovery (in the Eurozone). According to our forecasts, the 25 bp cut decided by the Fed in September 2025 would mark the start of a series of five cuts. The Fed would thus swap positions with the ECB, which can now opt for the *status quo*. The growth gap between the United States and the Eurozone would narrow from +2 percentage points in 2024 to +0.1 in 2026. With growth expected to rise and inflation under control, the Eurozone is escaping the stagflationary scenario seen in the United States, the United Kingdom and Japan. The euro is becoming more attractive and strengthening against the dollar (with parity expected at 1.22 by the end of 2026). The fiscal and monetary policy mix remains difficult to reconcile in the United States, the United Kingdom and Japan, while the Eurozone is in a more comfortable position.

TRADE WAR: AFTER THE SHOCK, TIME TO ADAPT

After the major upheaval of 'Liberation Day' in early April and the multiple reversals and successive announcements on the calibration of US tariff increases, the dust has settled somewhat since late July/early August. The agreement between the United States and the European Union, in particular, followed by the disclosure of the new US tariff list, provide a clearer picture of where customs duties will land and the conditions associated with them. This restores some visibility, but significant and numerous uncertainties remain¹.

The initial impact of this tariff shock on global trade has been both significant and limited. It has been significant in terms of the sharp ups and downs in exports and imports in the first half of 2025, in anticipation of the tariff increases and then in the aftermath. It has also been significant in terms of the rapid adjustment of trade flows to the new tariff situation, as highlighted in our Focus on this topic in this issue. This Focus also shows that the overall impact on global trade is limited, if not non-existent for the time being: its growth rate has not slowed and remains close to the 2024 trend. While trade links with the United States are weakening, they are redeploying and tending to strengthen in the rest of the world.

In terms of the impact on growth and inflation, the full effects of the tariff shock are yet to be felt. Not all countries are in the same boat, but contrary to the prevailing negative discourse, Europe is clearly doing relatively well² and the shock, in its current form, appears to be entirely manageable.

THE SAME CONSTRAINTS AND SUPPORTS ARE STILL AT WORK

One of the characteristics of the economic developments observed and expected in our central scenario is their gradual nature. The slow pace of adjustments contrasts with the feeling of a world that is changing ever more rapidly. The risk of non-linear effects and a more sudden deterioration in the economic situation, particularly in the US, has certainly increased. The scale of the uncertainties contributes to the feeling that the economic trajectory is on a knife edge. But for now, signs of a slowdown and signs of improvement remain contained, due to the opposing forces that continue to affect the global economy.

Multiple headwinds

Among the factors holding back economic activity, US tariffs and the continuing high level of uncertainty surrounding their future level and scope remain at the top of the list. We must also keep an eye on tensions surrounding long-term interest rates. These tensions remain latent and, when they do manifest themselves, they are still isolated bouts of nervousness for the time being. Bond markets are showing increased but selective vigilance with regard to fiscal risks. In addition, US long-term rates have recently eased, fuelled by expectations of Fed rate cuts. However, given the scale of financing needs and bond auctions by a number of countries, many of which have deteriorated fiscal positions, a more sustained, pronounced, and/or widespread rise in long-term rates poses a significant risk due to its potential implications.

Higher long-term rates are already complicating the fiscal situation at a time when significant consolidation efforts are needed in many countries, while at the same time there is a need to create room for manoeuvre to increase certain items of public spending (defence, environment, dependency). Fiscal consolidation, where it is taking place, even if it is being done smoothly, is another drag on growth. Added to this are the threats to the Fed's independence. In the short term, it is the additional uncertainty and concern that is detrimental; in the longer term, it is the economic and financial stability risks that this poses, in the United States and elsewhere in the world.

To conclude this list of headwinds to growth, we should mention China's vulnerabilities. The Chinese economy held up fairly well in the first half of 2025, but it seems to be running out of steam and remains mired in internal structural problems³. This is doubly negative for global growth: exports to China are suffering and imports from China remain strong, as the country is still dependent on external exports as a growth engine to offset its internal difficulties.

And just as many tailwinds

Faced with these numerous and relatively powerful headwinds, there is also a long list of tailwinds. To begin with, there are the relatively low oil prices, which are providing significant support for GDP growth in advanced economies. In the US, this is certainly complicating life for oil producers, but it is making life easier for consumers and the Fed.

¹ See [EU-US Trade Deal: A Damage Limitation Success](#) (27 July 2025) and [US tariffs in emerging countries: is the picture clearer now?](#) (27 August 2025).

² See [Increase in US tariffs: Europe fares best](#), 17 September 2025.

³ In China, economic growth remains resilient but the fight against deflation is far from won, 8 September 2025



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The Fed's resumption of rate cuts (as part of general easing trend around the world), after nine months of monetary status quo, is also a supporting factor. According to our forecasts, the 25 bp cut announced at the FOMC meeting on 16-17 September would be the first in a series of five (25 bp each). It would ease the degree of restriction in US monetary policy at a time when the US labour market is showing more significant and worrying signs of slowing down. However, this is not without risk, as it could further fuel the ongoing rise in US inflation, driven by higher tariffs on US imports, at a time when it has not yet returned to the 2% target.

The US stock market's initial reaction to the Fed's rate cut was mixed, torn between the underlying negative signal (deterioration in the labour market) and the positive signal of support provided by monetary easing). As the US stock markets approached their opening the day after the FOMC meeting, they seemed more inclined to view the cut in a positive light. This ability to see the glass as half full since the beginning of the year, despite the uncertainties and concerns surrounding the Trump administration's trade and immigration policies (the post-Liberation Day warning shot fizzled out), is a significant factor supporting growth, whose overall resilience in turn fuels market optimism. Growth and markets are also being buoyed by the tech-AI wave. However, this support is also tinged with concern due to the air of irrational exuberance surrounding it.

In the Eurozone, the favourable credit dynamics are also a positive factor. Last but not least, Germany's massive investment plan, European rearmament efforts, and the associated knock-on effects are also expected to provide support. The first effects are already visible in the business climate in Germany. They still need to be confirmed, especially as the challenges involved in materialising this support as quickly as possible remain significant. There is an awareness of the need and urgency for a European revival, and the will to tackle it, but concrete and rapid action is still awaited. This is demonstrated by Mario Draghi's renewed warning, in a speech marking the first anniversary of the presentation of his roadmap report to restore European competitiveness⁴. The list of achievements is not empty⁵, but it is not enough, for the time being, to make a difference. However, the direction taken is the right one, and our central scenario anticipates a gradual increase in momentum.

A desynchronized rebalancing of forces

These headwinds and tailwinds do not necessarily always balance each other out, given the different and difficult-to-grasp transmission lags. The effects of uncertainty are quickly apparent, while those directly linked to the increase in customs duties emerge more slowly and to an extent that is still uncertain. High long-term interest rates and fiscal consolidation also have a long-term impact on economic activity but can quickly weigh on confidence surveys. The slowdown in China is having a more immediate effect, as are credit dynamics and the wave of investment in AI on the supportive side. Low oil prices are reflected almost instantly in prices at the pump, but their support for growth is slower to spread. Wealth effects are already at work, but in theory they take time to feed through, as do cuts in key interest rates.

The support for European growth provided by increased military spending and the German investment plan will take the longest to be felt (given the time needed to implement and adapt production capacities), but the existence and prospect of this support may already be having a positive impact on the business climate. To illustrate our point more concretely, in our Eurozone scenario, we anticipate that growth will be somewhat hampered in the short term by the deleterious effects of the US trade war before the positive effects of European measures take hold in the medium term.

EUR/USD AT THE CONFLUENCE OF INFLUENCES

A good indicator of the economic situation

The EUR/USD exchange rate is a good indicator of current economic developments. For the time being, the depreciation of the greenback is orderly and broadly beneficial: for the US, as long as it remains favourable to growth and inflation does not play too much of a spoiler; for the rest of the world, and the Eurozone in particular, as long as it has a moderating effect on inflation, facilitating rate cuts, and growth is not too badly affected.

A positive signal for the Eurozone

The appreciation of the EUR/USD exchange rate is partly due to the improvement in growth prospects on this side of the Atlantic compared with their deterioration on the other side. It is not so much that the dollar is weakening as that the euro is strengthening. This positive signal in terms of attractiveness helps to put the negative impact on the Eurozone's competitiveness into perspective. The monetary policy differential (return to rate cuts on the Fed side, halt on the ECB side) is also contributing to the greenback's decline against the single currency. But, in the same vein, it is a good sign for the Eurozone that the ECB has (most likely) ended its cycle of rate cuts. The risk of more destabilising movements in the US dollar cannot be ruled out, as the greenback is not immune to a more pronounced wave of mistrust. But this risk appears to be less significant than that weighing on other markets (equities, credit, bonds). Given its strong past appreciation (nearly +50% between July 2011 and January 2025 in real effective exchange rates, nearly +30% against the euro), the US dollar has considerable room to fall before it can be considered weak (it has lost 6% since January 2025 in REER and just over 10% against the euro).

Our forecasts are for a EUR/USD exchange rate of 1.20 by the end of 2025 and 1.22 by the end of 2026, and for a further 3% depreciation in the US dollar's nominal effective exchange rate by the end of 2025 compared with its August average, and 4% between the end of 2025 and the end of 2026.

GROWTH FORECASTS: FEW CHANGES DESPITE THE CHANGES

Since our previous issue of EcoPerspectives in April⁶, the major trends anticipated at that time have not changed significantly. Even if a lot has happened, including the upheaval surrounding US tariff policy, economic indicators from advanced countries have generally been in line with our growth forecasts.

⁴ https://commission.europa.eu/document/download/0951a4ff-cd1a-4ea3-bc1d-f603decc1ed9_en?filename=Draghi_Speech_High_Level_Conference_One_Year_After.pdf&pre-flang=fr, 16 September 2025.

⁵ See Draghi report, one year later: Europe strengthens its competitiveness and The Draghi report: one year on.

⁶ EcoPerspectives — Advanced Economies | 2nd Quarter 2025 — Economic Research — BNP Paribas, 18 April 2025



Our adjustments are relatively minor and, above all, upward in most cases. While the pace of US growth is expected to remain higher than that of the euro area, the outlook remains for a slowdown across the Atlantic (-1.3 percentage points between 2024 and 2026) and a strengthening in the euro area (+0.6 pp). The growth gap is expected to narrow significantly: from +2 pp in favour of the United States in 2024, it would fall to +0.4 pp in 2025 and +0.1 pp in 2026⁷. Growth in the United Kingdom and Japan is also expected to improve in 2025, before slowing in 2026. Our growth forecasts for the United States for 2025 are in line with the consensus (1.7%) and slightly below for 2026 (1.5%, -0.2 pp). However, we are more optimistic than the consensus for the Eurozone in 2025 (1.3%, +0.1 pp) and 2026 (1.4%, +0.3 pp). Our forecasts for the United Kingdom and Japan are close to the consensus. Finally, we believe that the balance of risks surrounding our scenario is fairly even.

STAGFLATIONARY CONFIGURATION, WITH THE NOTABLE EXCEPTION OF THE EUROZONE

If we combine the growth situation and outlook with those of inflation, the United States, the United Kingdom and Japan are facing a stagflationary situation, combining slowing growth (United States) or low growth (United Kingdom, Japan) with high inflation (United Kingdom, Japan) and rising inflation (United States). The Eurozone is a notable exception to this unfavourable scenario: growth is picking up and inflation is back on target, expected to fall in headline terms and remain broadly stable for the core measure.

The Eurozone continues to be characterised by the mixed performance of its four largest economies. Spain continues to significantly outperform its partners, even though a slowdown is expected. Having a bigger industry share, Germany and Italy are more affected by the increase in US tariffs, but the growth outlook is improving, albeit fragile, between 2024 and 2025 and again between 2025 and 2026. French growth is also expected to improve in 2026 compared to 2025, but after performing poorly in 2025 (with growth down compared to 2024 and below the Eurozone average). It is penalised by factors specific to it (notably particularly low consumer confidence) which mask important strengths (aeronautics, services, entrepreneurial dynamism). France nevertheless benefited from a growth carry-over of +0.6% in Q2, compared with +0.2% for Germany, +0.5% for Italy and +2.3% for Spain, which is in a class of its own.

A RATHER COMPLICATED POLICY MIX IN THE UNITED STATES, THE UNITED KINGDOM AND JAPAN, LESS SO IN THE EUROZONE

Monetary and fiscal policies that are difficult to reconcile

Monetary and fiscal policy in the various advanced economies we cover here are each treading carefully, moving in uncoordinated and difficult-to-reconcile directions. In the case of the United States, fiscal support for growth via the OBBBA is offset by the negative effects of the tariff shock and the tightening of immigration policy⁸.

We anticipate a moderately restrictive fiscal impulse, which the resumption of monetary easing may help to cushion. However, the US budget deficit remaining at a very high level is a potential factor (rather invisible for the time being⁹) pushing up long-term rates (added to which are the effects of threats to the Fed's independence via an increase in the term premium). This could hinder the full transmission of the Fed's monetary easing. Furthermore, this cannot be taken for granted, as it remains dependent on data developments and the balance of risks.

In the UK, persistent inflation is limiting the BoE's room for manoeuvre to continue easing monetary policy, while fragile growth is complicating the calibration of fiscal consolidation, all under the watchful eye and pressure of bond markets, which further complicates the situation. In Japan, the policy mix is the opposite but no easier to implement. Monetary policy is in a tightening phase (from a very accommodative level) to contain inflation, while the expansionary bias of fiscal policy is likely to persist and fuel inflationary pressures, with the economy at full employment. The challenge for the BoJ is to avoid falling "behind the curve" by raising rates too little and/or too late, while fiscal issues are also putting upward pressure on Japanese long-term rates.

The ECB is in a more comfortable position

In the Eurozone, there is a one-size fits all monetary policy, while fiscal policies are national. At least the European Central Bank is in a more comfortable position than its peers. It has brought its monetary policy back to a broadly neutral stance, with inflation in line with its target. Moreover, in the short term, if it were to take further action, it would be in the direction of easing, given the fragility of the recovery. In terms of fiscal policy, the situation also looks good for the Eurozone as a whole: the fiscal impulse would be moderately expansionary in 2026, with the (controlled) increase in the German budget deficit being partially offset by an improvement in the primary balances of France, Spain and Italy.

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⁷ Find all our forecasts at the end of the publication and in each country fact sheet in graph format.

⁸ As highlighted in the latest CBO analysis: *CBO's Current View of the Economy From 2025 to 2028*, September 2025.

⁹ Since the beginning of the year, US long-term rates have experienced some moments of tension (particularly around Liberation Day). But the relative deterioration in the macroeconomic outlook, fuelling expectations of Fed rate cuts, has pushed them down quite sharply, to the point where, on 18 September, they were nearly 70 basis points lower than in mid-January, at the peak of the "Trump trade", once again closer to 4% than 5% as at the beginning of the year. However, even at close to 4%, they are at their highest level since 2007.



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