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Europe's Automotive Market: What to Expect in 2026

After several chaotic years, the European automotive market appears to have entered a phase of stagnation, or at least to have stopped contracting. New car registrations have stabilised around 2024 levels, while electrification has continued to progress in stages. While hybrids still dominate, electric vehicles are gaining ground, to the detriment of conventional internal combustion (ICE) models. The transformation of the vehicle fleet is therefore continuing, albeit at a slower pace than initially expected. Can a recovery now be anticipated?

Figures from the European Automobile Manufacturers' Association (ACEA) on new car registrations point to a mixed year: registration volumes are no longer declining, but neither are they rebounding. Cumulative volumes are down just 0.1% compared with 2024, with a marginal increase of 0.9% recorded by the end of September 2025.

This inertia should not, however, be taken at face value. Major transformations are clearly under way within the vehicle fleet, particularly a significant shift in the powertrain mix.

- Non-plug-in hybrid vehicles remain the most popular choice, accounting for 35% of market share;
- Fully electric vehicles now represent 16% of registrations, continuing a steady upward trend since 2024;
- Plug-in hybrids are also making further progress, remaining just below the 10% threshold;
- New registrations of petrol and diesel vehicles have fallen below 40%.

Electrification is therefore a reality, but one that currently benefits hybrids more than full electric vehicles and remains constrained by economic considerations and the need for continued deployment of charging infrastructure.

Understanding the pressures at play

Conflicting forces are shaping the European automotive market. Falling interest rates have given some renewed momentum to car financing, but heightened competition—particularly with the arrival of Asian vehicles—has prevented traditional brands from fully benefiting.

Another factor likely to disrupt the market is political. In mid-December, the European Commission announced the introduction of flexibility mechanisms in the trajectory towards the 2035 zero-emissions objective, resulting in an effective emissions reduction of around 90%. The proposed framework opens the door to maintaining a limited share of non-electric vehicles, notably those equipped with alternative transitional technologies.

The Commission also plans specific incentives to encourage the electrification of corporate fleets. These incentives, however, will apply only to vehicles manufactured in Europe. This transformation of the professional vehicle fleet could help supply the second-hand electric vehicle market, which will need to be supported by new service and insurance offerings, such as those developed by niche players like Caarea. Also worth noting are new incentives in favour of small electric vehicles, through a system of super-credits for emissions targets running until 2034. Could this act as a catalyst for accelerating sales of the most affordable electric models in Europe?

A tentative recovery in 2026

According to industry projections, established prior to the Commission's announcements, 2026 could see a modest recovery in the European automotive market, with growth ranging between 1% and 3%. This recovery would be driven in particular by the arrival of more affordable electric models, including in the compact SUV segment. Enough, perhaps, to finally cross the symbolic threshold of 20% market share for electric vehicles?

European policy orientations and fiscal incentives will be key factors in determining the direction of market developments and in limiting demand volatility.

These regulatory changes, combined with intense competitive pressure, require constant adjustments from European OEMs. Insurers must support automotive players by offering flexible service strategies and insurance product ranges that reflect the realities of a market undergoing profound transformation. This flexibility—supported, as we see it at Caarea, by technology and automation—represents a competitive advantage for OEMs challenged in their core segments by foreign competitors.



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