

EDITORIAL

FIVE GOOD REASONS TO BE POSITIVE ABOUT EUROPE IN 2026 (AND BEYOND)

Europe is getting better and better. It has not been spared shocks, notably the war in Ukraine – its impact on energy prices is largely responsible for German stagnation – and political uncertainty in France, which affected French GDP growth in 2025. But Europe is overcoming these difficulties. GDP Growth in the Eurozone proved robust, at 1.5%, and 2026 should be a positive year, even more than in 2025. Industry has emerged from recession, buoyed by defence, aeronautics and AI, while households are showing purchasing intentions not seen since February 2022. All these factors will help Europe to continue building its strategic autonomy. The context is favourable and Europe is becoming increasingly credible in the eyes of investors.

GERMANY FINALLY BACK ON TRACK

Germany is expected to return to more robust growth in 2026 for the first time in four years (after a return to moderately positive territory in 2025 at +0.3%). The blow dealt by soaring energy prices following the outbreak of war in Ukraine in February 2022 was severe.

Furthermore, following the announcement in March 2025 of two massive investment plans in defence and rail infrastructure, doubts about their implementation have been mounting. Infrastructure spending is unlikely to have increased in 2025 due to delays in implementation, but the spending has already been approved for 2026, which should enable a ramp-up. This is reflected in public spending and, as a positive sign, in industrial production of capital goods since the fourth quarter of 2025 ([see our analysis on this topic](#)). The recovery is spreading, with ten out of twenty-two industrial sectors rebounding or expanding, according to the IFO survey. This is a proportion not seen since January 2022.

Germany's potential growth should rebound. Indeed, Germany has set out to make up for the investment backlog that has weighed on its potential growth for years. And it is doing so with low-capacity utilization rate (reflecting market share losses in industry), which can now be redirected. This translates into an available workforce, as evidenced by the unemployment rate (which, while not high, rose from a low of 3% to 3.8% in November 2025).

The increase in investment is also made possible by limited debt, whose impact on interest rates remains relative and manageable. Thus, the interest burden would have remained close to 1% of GDP in 2025 and should remain contained at 1.7% of GDP at the end of the decade, according to our forecasts. Given its favourable starting point (moderate fiscal deficits), the country is not suffering from financial constraints. It does not need to make immediate savings in order to increase spending where it wishes.

Germany's return to the forefront is accompanied by a desire to source more from the domestic market, at least in Europe, and therefore slightly less from the United States (which, until now, accounted for nearly half of Germany's military investment expenditure).

A EUROPEAN DYNAMIC

The European Union (EU) plans to source more from its own market, notably through its [SAFE programme](#), which finances investment in defence production capabilities in EU countries (or among its close partners).

This should also provide European companies with a growth driver, as intra-EU trade is recovering in front of decreasing exports to China and the United States in 2025. In this context, the growth in German exports to Europe (by nearly 4% in 2025 after two years of decline) is an encouraging sign in the right direction.

The necessary revival of European demand requires a reduction in critical dependencies, particularly in the military, energy (through electrification) and rare metals sectors. However, Rome was not built in a day, and it would be excessive, given that strategic autonomy has not yet been achieved, not to acknowledge the progress that has been made.

European rearmament is accelerating: defence spending reached 2.1% of EU GDP in 2025 according to our estimates (compared to 1.9% in 2024) and is expected to represent 2.5% of GDP in 2026 (according to our forecasts). The German dynamic will be evident, but efforts will also step up elsewhere in 2026. Even Spain, which plans to stop at 2% of GDP, is expected to reach this threshold rapidly. In France, the year will also be marked by an acceleration in military spending growth (+0.2 percentage points of GDP, after +0.1 percentage points in 2025).

Furthermore, Europe has already launched numerous projects aimed at completing its financial architecture, and it is important to note their progress ([particularly in the area of payments, see our analysis](#)). This is a prerequisite for strengthening the EU's strategic autonomy in this area, as well as attracting more funding. The EU will also need to make better use of its abundant savings, the scale of which is a strength for Europe, provided they are put to better use.

In this context, the way Europe is perceived is important. However, this perception is improving. The Eurozone crisis is far behind us, the countries that were affected have largely reduced their deficits (public and external) and deleveraged (public and private), and their growth is now above the European average.

Furthermore, following upward pressure on German long-term interest rates (following the announcement of investment plans in April 2025), a majority of countries have benefited from a reduction in spreads. Although France, hampered by political uncertainty, was an exception for a long time, the reduction in the spread also applies to it since the rejection of the no confidence motions on the budget. This convergence of long-term rates in Europe strengthens the solidity of the Eurozone and facilitates the implementation of the ECB's mandate, especially in the context of a general rise in interest rates.

FRANCE, THE BRIDGEHEAD FOR EUROPE'S SHIFT TOWARDS AI

Artificial intelligence is generating a wave of investment in the United States on a scale similar to that which accompanied the development of the internet in the late 1990s, according to a [recent IMF analysis](#). Europe has not been idle. It is attracting a growing number of investment projects, and European leadership in this field may well be in France, which would thus confirm its status as the leading recipient of foreign investment in Europe.

For several years now, France has had an ecosystem that is favourable to innovative technology companies and digital services. The creation of new businesses, which has been rising sharply for the past 10 years, continued to increase in 2025 (+5% y/y), as did French companies'



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investment in digital technology, making this sector the largest in Europe ([see our analysis](#)). France also produces abundant, cheap and carbon-free electricity, a decisive factor in attracting data centres, which are heavy consumers of electricity. Unsurprisingly, it is in France that the most significant projects in Europe have been announced, according to a recent United Nations report.

But leadership does not mean exclusivity. At the European level, the use of AI appears to be more firmly established: while the United States and China have taken the lead in terms of investment in AI, nearly four out of ten Europeans have already used it, compared to three out of ten Americans and just under two out of ten Chinese ([according to a Microsoft report](#)).

Many European companies are expected to reach a milestone in 2026. And even if the statistics demonstrating this once again come from France, it is difficult to imagine that this will be confined to France: for the first time in the history of the INSEE investment survey (which began in 2000), modernisation and rationalisation are becoming the main triggers of the investment intentions of industrial companies (in front of renewal of ageing capacities).

This could well challenge the commonly held belief that Europe is mature, ageing and lacking in dynamism. While population growth is slowing and its capital is largely built up, Europe is probably about to put an end to several years during which its horizon was limited to renewing what had become obsolete.

THE WORLD'S LEADING CIVIL AIRCRAFT MANUFACTURER IS EUROPEAN, AND ITS PRODUCTION HAS INCREASED SIGNIFICANTLY

Aeronautics is one of the few sectors of the European economy to have consistently enjoyed a full order book post-Covid. It is also the last sector where persistent supply constraints (among suppliers and in terms of labour shortages) are limiting production. This is linked to the very nature of the sector, characterised by a sharp increase in maintenance activities, in addition to the construction of new civil aircraft and military development.

In France, for example, aeronautics production stagnated between the end of 2023 and May 2025 (nearly 20% below its pre-Covid level). This has not been the case since last June: production has increased by 15% to make up most of the shortfall. In the coming months, a further increase is expected in order to cope with the ramp-up still needed to meet delivery targets. Despite the increase observed in 2025, Airbus missed its delivery target (820 aircraft initially planned, compared with 793 delivered).

CAUTIOUS RETURN OF EUROPEAN CONSUMERS

The slowdown in household consumption growth following the onset of the inflationary crisis is the main cause of the lower growth observed in the Eurozone over the past four years ([see our analysis](#)).

The reason why consumption has not rebounded, even though wage growth has exceeded inflation since 2024, is because concerns about unemployment have taken over. These fears have fuelled concerns about a deterioration in the general standard of living of Europeans (even though households' perception of their own financial situation has remained relatively unchanged).

However, the unemployment rate has not increased, especially in the Eurozone, where it remains close to historic lows. Moreover, the increase has remained moderate in the countries where fears of unemployment were most acute (France and Germany). This resilience in the labour market has led to a decline in concerns, which has translated into a rebound in intentions to purchase durable goods, reaching their highest level since February 2022. With purchasing power expected to improve (minimum wage increases in Germany, tax cuts for the middle classes in Italy, fiscal consolidation that does not affect households in France), it appears that the conditions are met for a rebound in consumption in the Eurozone.

Despite the improvement in European growth fundamentals, downside risks remain significant. Europe remains dependent on strategic supplies (energy, rare metals) and infrastructure (digital and military). However, we believe that a significant portion of the current dynamics are relatively unexposed to these risks. Europe is built on crises. Its responses to the crises it has just experienced give us reason to be reasonably optimistic about its ability to move forward.

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