2025: A PIVOTAL YEAR FOR ELECTRIC VEHICLES IN EUROPE

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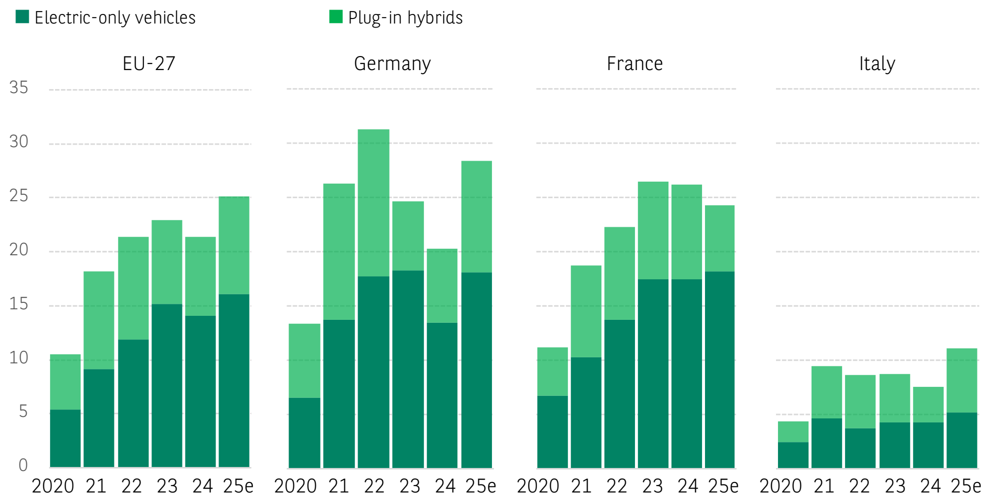
2025 saw a renewed appetite among European consumers for electric cars. This enthusiasm comes after a lacklustre 2024, when registrations stagnated following the late 2023 announcement regarding the reduction of budgetary support in France and the complete withdrawal of such support in Germany. Yet, numerous studies, including the joint report by Pisani-Ferry and Mahfouz, had deemed these subsidies crucial.

The post COVID fiscal consolidation eroded the support for electric vehicles. In Germany, the purchase subsidies vanished after the Karlsruhe Court ruled that unspent COVID funds could not be repurposed for electrification without a new parliamentary vote granting an exception to the EU debt brake rule. In France, the subsidies were reduced. Coupled with a European preference rule that increased the cost of manufactured vehicles (including those from China), this resulted in a decrease in the proportion of EVs in new car sales in 2024.

SALES DEVELOPMENT OF ELECTRIC VEHICLES, AS % OF TOTAL



SOURCES : AIE, OECD, ACEA

However, that hiatus has now ended. When asking whether a country can tighten its budget deficit and still back electrification, the answer is yes. France exemplifies this by using energy efficiency certificates. These certificates are funded by energy producers – ultimately passed on to energy consumers – with a relatively minor impact on inflation, given that inflation currently hovers around 1% and market electricity prices are on a downward trajectory. This scheme therefore does not put an additional strain on public finances.

Furthermore, it is possible to comply with the debt brake rule while reintroducing a purchase subsidy for electric vehicles, provided that savings are generated elsewhere. A few weeks ago, the German government, led by Chancellor Merz, announced a €3 billion EV purchase subsidy modelled on the French initiative and featuring a community preference component. As a result, the proportion of electric vehicles is already beginning to recover.

The reduction in electricity prices also provides a boost. The electrification of end-use applications has been slow, and electricity demand has not kept pace with the swift growth of supply. Production is currently highly surplus-laden, especially in France, but also in most member states. Consequently, many countries have seen a decline in energy production costs, with Germany trailing behind its counterparts due to its less decarbonised energy mix, although it too benefits from lower costs.

The critical question remains: can Europe increase electric vehicle production without triggering a sharp rise in Chinese imports? France serves as a valuable example. Imports of Chinese built cars fell by EUR 1.1 billion between 2023 and 2024 (from EUR 2.9 billion to EUR1.8 billion) and have only slightly recovered since then. This decline is the direct result of the community preference rule introduced in the French EV bonus at the beginning of 2024, along with additional tariffs imposed by the European Union. Nevertheless, the medium-term outlook indicates a growing presence of Chinese manufacturers in Europe. The automotive value chain is already feeling the pressure: the deficit in automotive equipment imports in France reached nearly EUR 5.5 billion over the 12 months ending in October 2025, marking a shift from the surplus that had persisted until 2016.

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