Economic outlook for 2026: preparing European businesses for turbulence

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The year 2025 marked a turning point for the global economy. Between the Trump shock, Chinese overcapacity and geopolitical tensions, companies must redefine their strategies. Growth, insolvencies, changing margins: our experts analyse the challenges of 2026 and share their advice on how to strengthen your company's resilience in the face of the turbulence ahead.

2025: a year of geopolitical upheaval and realignment

The year 2025 will be memorable as a major turning point for the global economy. After Donald Trump's (ultimately) landslide victory in late 2024, trade protectionism entered a new era, marked by the now famous *Liberation Day* (April 2025) and the swift introduction of widespread tariffs. This sudden acceleration pushed economic uncertainty to unprecedented levels, comparable to those seen during the Covid pandemic. Beyond the tariff shock, the entire global geopolitical architecture has been shaken. The fragmentation of the world has intensified with a new phenomenon: the fracture of the Atlantic bloc itself.

> Fragmentation is accelerating, and the economy is becoming a tool of coercion. Previously, the emphasis was on the heterogeneity of the global South, but today it is the transatlantic relationship itself that is causing real concern.

– **Frédéric Wissocq, Western Europe & Africa Underwriting Director at Coface**.

This reconsideration of the historic alliance is forcing Europe to urgently rethink its strategic posture, particularly in terms of defence, at a time when several countries on the continent are facing major budgetary constraints.

This turbulent year has shown, if proof were still needed, that the economy is being exploited for geostrategic purposes, with interdependencies now openly "weaponised". International relations are now structured around power relations, with customs tariffs, export restrictions and economic sanctions becoming weapons of coercion in their own right.
European companies are thus caught between several fires: American protectionism, Chinese competition, regional political instability.

In this alarming context, uncertainty weighs heavily on the confidence of economic actors, resulting in sluggish consumption and a pronounced cautious approach to investment decisions.

European competitiveness: between the hopes of the Draghi report and the reality of implementation

Faced with this threatening context, Europe at least deserves credit for having made for having clearly diagnosed its weaknesses. The Draghi report on competitiveness and the Letta report on the single market have identified the continent's underlying issues:

- lagging behind the United States and China in terms of innovation,
- fragmentation of the single market
- high energy costs,
- excessive strategic dependencies.

The European response has taken the form of the "**Competitiveness Compass**", which sets an ambitious strategic course for 2029 based on several key areas:

- closing the innovation gap in advanced technologies,
- developing a coherent plan combining decarbonisation and competitiveness,
- strengthening security by reducing dependencies.
- accelerating the process of political integration

> What worries us today is the delay in implementing the operational aspects of what was recommended in the Draghi and Letta reports.

- **Jean-Christophe CAFFET,** Chief Economist at Coface.

Although a few projects have been launched – gigafactory projects, administrative simplification for SMEs, acceleration of the issuance of mining permits – the pace remains well below what is required to address the urgency of the situation. The Draghi plan called for annual investments of between €750 billion and €800 billion to boost European competitiveness. However, the effective mobilisation of these amounts is hampered by the budgetary constraints of many Member States and/or political reluctance to issue joint debt.

The German case perfectly illustrates this tension between ambition and reality: the election of Friedrich Merz in 2025 was a turning point in German economic doctrine. A long-standing champion of budgetary orthodoxy, Germany announced a massive recovery plan estimated at €850 billion over 10 years. This includes a special fund of €500 billion to modernise infrastructure, more than €200 billion for defence, and €100 billion dedicated to the green transition.

> It's a double miracle: that Germany, after three lost years, has finally woken up and stopped making fiscal discipline the cornerstone of its strategy.

- Jean-Christophe Caffet

This could have positive knock-on effects across Europe, particularly for French subcontractors and neighbouring countries. However, doubts remain about the nature and actual timing of this spending, as Germany has *"its own unique approach to fiscal stimulus"*.

European companies: navigating between US tariffs and Chinese dumping

Despite initial fears, US tariffs have not ultimately caused major distortions for European exporters. Average effective tariff rates are currently around 16-17% globally, a level that affects Europe as much as its competitors.

"Europe is not taxed more than the rest of the world and is sometimes even taxed less on certain products it exports to the United States," points out Jean-Christophe Caffet, Group Chief Economist at Coface. The analysis suggests that, at the macroeconomic level, around 80% of the tariff bill is borne by US entities – companies or consumers – and not by foreign exporters, contrary

to the claims of the Trump administration.

The real danger for European industry lies elsewhere: in the "second Chinese shock" characterised by a massive dumping of Chinese (over)production on the European market.

> What concerns European companies most today is Chinese dumping and overcapacity being dumped on the old continent.

- **Frédéric Wissocq,** Western Europe & Africa Underwriting Director at Coface.

This risk is due to both Chinese overcapacity and US tariffs, which are making the US market becoming less accessible to Chinese products. For the time being, China has managed to redirect its exports to Europe, but above all to third countries, or "connectors": +6% year-on-year to Europe, more than 20% to countries such as Vietnam.

This Chinese trade offensive comes with fierce deflationary pressure. The price gap between Chinese and European manufactured goods has widened by 30 points since the post-Covid reopening, reaching more than 40 points when exchange rate fluctuations are taken into account.

> This Chinese overcapacity is depressing production prices in China, which is squeezing the turnover and, consequently, the margins of European manufacturers. This is not a temporary phenomenon but a significant and, likely, lasting trend.

- **Jean-Christophe Caffet,** Group Chief Economist at Coface.

Some sectors are particularly impacted:

- **Electric vehicles**, where China has made a spectacular move upmarket (read our article about it),
- **Capital goods**, particularly those related to carbon-free energy production
- Metals, whose two main markets – construction and automotive – are slowing down.
- In Germany, the profit margin for all **non-financial companies** has fallen by 5 points over the last three years, with a much greater decline in certain manufacturing sectors.

Outlook for 2026: moderate growth and persistent insolvencies

For 2026, Coface's economic forecasts paint a landscape of modest global growth and persistent tensions. Global growth is expected to settle at around 2.4-2.5%, marking a further slowdown after the 2.6-2.7% expected in 2025. This growth rate, which is below pre-pandemic potential, is now the new normal in the current economic environment.

In the United States, growth is expected to stabilise slightly below 2%, supported massively by investments in AI and technology in the broad sense: data centres, networks, power generation, etc. The AI sector alone accounts for around 20% of US growth in 2025, and almost all of it if we include the wealth effects on consumption *via* stock market valuations, which are being driven upwards by the share prices of the major groups in the sector.

In Europe, expected growth remains close to 1%, a similar level to 2025. Germany could see 1% growth thanks to the Merz plan. For France, the forecast stands at 0.6% but remains subject to persistent fiscal and political uncertainties.

China is expected to continue its organic slowdown despite the official target of 5% growth, while India continues to show strong momentum, driven by its domestic growth drivers and relatively low exposure to the US market.

Business failures are expected to continue to rise in 2026, although the pace of increase is slowing. In France, 2025 is expected to end with around 69,000 failures, exceeding the 2009 record (63,000).

> In terms of companies insolvencies, we are at 10-15-year highs worldwide and have reached a record level in France, where we are nevertheless seeing the beginning of a downturn.

- **Jean-Christophe Caffet**

For 2026, Coface anticipates a global increase in insolvencies of +3 to +4%, compared with +6 to +7% in 2025. The sectors most affected remain construction and hotels and restaurants, but there has also been a sharp increase in insolvencies among medium-sized companies with significant social balance sheets.

> These are often historically fragile companies whose decline has been precipitated by the general context.

- **Frédéric Wissocq**

The "zombie" companies that had survived thanks to Covid pandemic aid and low interest rates are gradually disappearing. However, a new wave of insolvencies could emerge with the gradual spread of technologies, particularly artificial intelligence, throughout the productive fabric – what Jean-Christophe Caffet describes as *"destructive creation"* rather than *"creative destruction"* – at least during an initial transition phase.

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