

SPEECH

## Turning size into scale: Europe's new growth model

### Acceptance speech by Christine Lagarde, President of the ECB, for the 2026 Paul A. Volcker Lifetime Achievement Award at the 42nd Annual NABE Economic Policy Conference in Washington DC, United States

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There is perhaps no greater question in political philosophy than whether history is shaped by individuals or by the forces that carry them. Tolstoy devoted the philosophical heart of *War and Peace* to this question.

His answer was uncompromising: the so-called great men of history were not its authors but its instruments.

This is a powerful thesis. But in the history of economic institutions, the evidence points both ways. Institutions are shaped by the laws they are built upon and the mandates they are given. But they are also shaped, sometimes decisively, by the people who serve them.

Perhaps nowhere is this clearer than in the story of Paul Volcker, whom this lecture honours.

What Volcker did in the early 1980s went beyond taming inflation. He transformed the character of the Federal Reserve System. Before he came along, the Fed's independence had been established in principle by the US Treasury-Federal Reserve Accord in 1951, but it had not always been defended with equal vigour.

Arthur Burns had given a lecture on what he called "the anguish of central banking" – an argument, in essence, on why central banks could not be expected to control inflation against the weight of political pressure.<sup>[1]</sup>

Volcker offered no such apology. He raised rates to levels that induced the deepest recession since the 1930s and came under sustained political attack.

His act of personal conviction changed the trajectory of central banking not only in the United States, but worldwide. It is the same tradition that Jay Powell has upheld with such resolve.

Their efforts serve as an important reminder that, while we need legal frameworks to ensure central bank independence, frameworks alone are never enough.

Laws can be rewritten, mandates reinterpreted, institutional norms hollowed out. Independence ultimately has to live in the culture and conviction of the people who serve these institutions – because sooner or later, the legal limits will be tested.

### European models of decision-making

Europe, of course, has been accused of lacking precisely this kind of decisiveness. US Treasury Secretary Bessent captured the sentiment recently with his quip about "the dreaded European working group". It is a familiar charge, and not always an unfair one.

Too often, Europe has allowed itself to become entangled in its own procedures. Progress has been blocked by the need for unanimity, slowed by the impulse to harmonise every detail across 27 countries, and frustrated by an instinct to regulate before we innovate. These are real problems, and Europeans know it.

Some of this is the inevitable result of how the EU has been built. It was conceived to require compromise, diffuse authority and ensure that no single country could impose its will on the others. That was a deliberate choice, born of a continent where the unchecked power of individual states had too often led to catastrophe.

But the idea that this structure condemns us to inaction is wrong. And the clearest evidence of this is the institution I represent.

With 27 members, the ECB's Governing Council is by far the largest monetary policy committee among the major central banks.<sup>[2]</sup> The Federal Reserve has 12 voting members. The Bank of England and the Bank of Japan each have nine.

One might expect a structure of this size to result in inertia. In practice, it gives us distinctive strengths.

First, it makes us harder to influence.

A decision forged on the basis of 27 informed perspectives is harder to reach, but it is also far more difficult for any single government to influence or reverse under pressure. In that sense, our very structure reinforces our independence.

Second, our diversity is an asset in times of high uncertainty.

Each member of the Governing Council brings a different assessment of how the economy is evolving, how monetary policy is transmitting and where the risks lie.<sup>[3]</sup> Taken together, these perspectives form a natural distribution around the central forecast, mapping the uncertainty in a way no single decision-maker can.

When you are confronted with a pandemic, an energy crisis, a war and a reconfiguration of global trade within the space of a few years, that diversity becomes a form of institutional insurance.

Third, none of this comes at the cost of speed.

When the pandemic struck, we designed and launched a €750 billion emergency asset purchase programme within days. When inflation surged, we raised rates by 450 basis points in a little over a year, the fastest tightening cycle in the ECB's history. We then cut them again by 200 basis points as inflation stabilised at our medium-term target.

Of course, monetary policy is a special domain. We have a clear mandate to guide our decisions, whereas lawmakers face more competing objectives. But the wider EU has also shown it can act when confronted with urgent crises.

Our monetary response during the pandemic, for example, was made far more effective by the decision of EU leaders to create the Next Generation EU programme, a €750 billion common fiscal instrument agreed within months and financed through joint borrowing. This kind of programme would have been unthinkable just a year earlier.

The question today is whether Europe can act not only under the pressure of crisis, but also on the structural issues that determine long-term growth.

The argument that Europe is incapable of this kind of change – that our procedures condemn us to stagnation – is being tested against the evidence. And the evidence is starting to tell a different story in three key areas.

### The changing composition of demand

The first area is in the composition of demand.

For much of the past 15 years, the euro area relied heavily on the rest of the world to generate growth. After the global financial crisis, domestic demand as a share of GDP fell to the bottom of the range among advanced economies. At the same time, the current account shifted from being broadly balanced to showing persistent surpluses.

Fiscal policy played an important role. Between 2009 and 2019, the euro area's cyclically adjusted fiscal stance averaged at a surplus of 0.2% of GDP, compared with a deficit of almost 3.7% in the United States. Inadequate domestic demand was identified by our US partners long before relations became more complicated.

Today, Europeans widely recognise that this model has run its course. It presents two fundamental problems.

First, we now operate in a world in which our largest single export market is subject to tariffs, and where our third-largest export market, China, is running a trade surplus of around USD 1.2 trillion. In such an environment, external demand is inevitably less reliable.

Over the next three years, Eurosystem staff expect exports to expand at roughly half their historical average pace.

Second, this model has meant exporting our savings at a time when we face substantial investment needs at home.

US capital markets now account for roughly one-third of euro area residents' holdings of listed equities, a share comparable to that invested domestically.

These investments have generated significant income gains. In 2025 alone, euro area investors earned almost €200 billion from their US equity holdings, or around 1.3% of GDP.

<sup>[4]</sup> But the broader returns, in productivity gains and innovation, accrue where the capital is deployed. That has overwhelmingly been in the United States.

As an illustration, if the euro area were to deploy some of that capital productively at home – enough to close just one-quarter of the productivity gap with the United States – the gains for the economy could be in the order of €500 billion per year. That is more than twice the income earned on those foreign investments.<sup>[5]</sup>

Yet a shift is now underway.

Last year, euro area growth reached 1.5%, its strongest performance in three years, despite rising trade tensions. This growth was driven entirely by domestic demand, with net exports subtracting half a percentage point.

Europe's geopolitical needs and macroeconomic interests now point in the same direction: the investment required for security and resilience will also strengthen our domestic growth.

Government spending on defence and infrastructure is rising markedly while simultaneously supporting private investment. AI is providing an additional tailwind: private digital investment<sup>[6]</sup> has risen by almost 20% since 2020<sup>[7]</sup>, and our survey of large European corporates points to ongoing strong growth in AI-related spending.

This momentum is likely to be sustained. Much of the increase in defence spending still lies ahead, and investment in data centres and energy grids is now moving into the implementation phase.

Overall, between 2026 and 2028 investment<sup>[8]</sup> is projected to account for almost 40% of euro area growth – well above its historical average of around one-quarter – representing more than €150 billion in additional cumulative investment.<sup>[9]</sup>

While these investments are being made to promote Europe's own growth and resilience, they also support a more balanced relationship with our trading partners.

The current account surplus fell to 1.6% of GDP in 2025, down from 2.7% in 2024, and our projections indicate that it should remain around that level.<sup>[10]</sup> A significant share of what remains reflects the savings behaviour of an ageing population.<sup>[11]</sup>

## New possibilities for supply

The key question for Europe, however, is how stronger demand can translate into stronger sustained growth.

There is a link. Eurosystem research shows that aggregate demand conditions play a role in productivity growth. When revenues rise and financing constraints ease, firms are more likely to increase spending on research and development and adopt new technologies.<sup>[12]</sup>

But that transmission is not automatic. Looking at domestic demand as a share of GDP, Germany has been near the bottom of the range among large economies for extended periods, while France has been near the top. Yet their long-term growth outcomes have not been markedly different.

The reason is that demand can only bring a sustained increase in growth if firms are able to respond. And longstanding supply-side constraints have limited their capacity to expand, innovate and scale across Europe.

This is where the second shift comes in, and it is on the supply side itself. Europe's private sector is showing that it is ready to adopt new technologies at speed, provided we remove the remaining barriers.

Europe is not leading the way in developing frontier AI models. But if history is any guide, the larger economic prize may lie not in producing these tools, but in applying them across the wider economy.

This is already happening. Providers of digital services in Europe are reporting double-digit growth as firms adopt AI tools.<sup>[13]</sup> And firms that have deployed AI are seeing productivity gains of around 4% on average.<sup>[14]</sup>

Europe also has strengths that are not yet fully apparent.

Current estimates of AI's impact on growth are larger for the United States, driven mainly by its strength in AI-intensive services – namely technology, finance and business services – and by much higher levels of digital investment.<sup>[15]</sup>

But the next wave will be about embedding these tools in complex physical systems, particularly in manufacturing and industrial processes.

Here Europe starts from a position of strength. Even throughout the pandemic and the energy crisis, Europe's high-tech manufacturers continued to raise their productivity, while the broader economy faltered.<sup>[16]</sup>

A recent survey finds that almost half of EU manufacturing firms are already using AI and big data, compared with less than a third in the United States. European manufacturers are also ahead in the deployment of robotics – 55% versus 36%.<sup>[17]</sup>

Europe's industrial base – sometimes seen as a legacy of the old economy – may turn out to be its most important asset.

This potential is not lost on investors.

If we go back to late 2024, the mood towards Europe was gloomy: 23% of institutional investors surveyed by the ECB expected to reduce their allocation to Europe over the coming year, while just 8% planned to increase it. By the end of last year, those shares had reversed: just 7% planned to reduce allocation to Europe, while 40% planned to

increase it.

Investment is also flowing into the most dynamic sectors. Last year, AI-related deals accounted for more than a third of all European venture capital investment.<sup>[18]</sup>

The pieces, then, are falling into place: a private sector that is adopting new technologies, and investors willing to finance that adoption.

But whether this potential turns into sustained growth will depend on reforms. Above all, it will depend on whether we create the scale, in markets and in finance, to allow these technologies to diffuse across the entire European economy.

## Turning Europe's size into scale

This brings me to the third area of change.

Two major reports since 2024 – by Enrico Letta and Mario Draghi – have set out in detail the internal barriers that still hold Europe back and how to remove them.

The message that emerges most clearly is this: Europe is a sleeping giant. Its potential is immense, but the changes needed to unlock it are not.

This starts with the Single Market. On paper, it is the largest consumer market in the advanced world, consisting of 450 million people. In practice, it remains deeply fragmented.

Services now account for three-quarters of Europe's economy. Yet intra-EU trade in services amounts to only around one-sixth of GDP – roughly the same as our trade in services with the rest of the world.

The barriers are highest where they do the most damage: in digital services, which will drive innovation, and in capital markets, which must finance it.

But what stands out is the leverage: small changes in policy can unlock very large gains in growth.

ECB analysis shows that if internal barriers<sup>[19]</sup> were as low in all Member States as they are in the Netherlands, trade within the Union could increase by almost 15% for services and 4% for goods, with effects on GDP roughly four times larger than the estimated losses from US tariffs.<sup>[20]</sup>

The same principle applies to capital markets.

European households hold more than €12 trillion in cash and deposits – roughly one-third of their financial assets. In the United States, the figure is closer to one-tenth.

If EU households were to align their deposit-to-financial assets ratio with that of US households, a stock of up to €8 trillion could be redirected into long-term, market-based investments – or a flow of more than €350 billion annually.<sup>[21]</sup>

But things are moving, with work underway to remove the obstacles I described earlier.

First, new approaches are emerging that offer integration without full harmonisation.

The proposal for a 28th regime is a good example. Rather than aligning 27 sets of national rules, it would create a single European legal framework that companies can choose to use for cross-border operations.

The logic is not unlike what happened with Delaware in the United States: not harmonisation imposed from above, but a single framework attractive enough that firms opt in voluntarily.

The difference is that Europe's version would sit above national law from the outset, offering a common standard without requiring Member States to change their own rules.

Second, our methods of decision-making are evolving so that those who want to move ahead can do so.

Member States used the enhanced cooperation mechanism, which allows willing participants to collaborate, to provide EU budget support for Ukraine. The EU's recent trade agreement with Mercosur was approved by a qualified majority, bypassing what has long been perceived as an effective veto for large Member States on major trade deals.

And last week, EU leaders set June as the deadline for the first phase of the savings and investments union, the long-stalled effort to integrate Europe's capital markets. The message was clear: if it proves impossible to move forward with all 27 Member States, a smaller group will press ahead.

This is not a break with Europe's past. On the projects that have mattered most, Europe has found a way. The euro began with 11 countries. Schengen began with five. In each case, those who moved first created a centre of gravity that then attracted others.

The same dynamic can apply again. And my message today is: it will.

## Conclusion

Let me return, in closing, to my opening question: whether history is shaped by institutions or by the individuals who serve them.

Europe has often been portrayed as a system in which neither truly prevails: too bound by rules to allow strong leadership, too diverse to let institutions flourish.

But defining Europe in these terms would be underestimating its ability to adapt. Precisely because of our structure, we have often had to innovate in order to move forward.

Today, our institutions are evolving so that decisions can be taken at scale. And when unanimity is not possible, those who are ready to act are increasingly doing so.

Our goal is to act within a solid legal framework, while allowing those who are prepared to lead to move first and show the way.

When I was nominated for the ECB Presidency, the question I was asked most by American colleagues was: can Europe really act?

After a pandemic, an energy crisis and a war on our borders, I no longer hear that question. The question now is whether Europe can act with the same resolve on its longstanding structural weaknesses – even when not under pressure from a crisis.

I believe we will. Not because I am optimistic by nature, but because the cost of not acting has finally become impossible to ignore, and because what is needed is not beyond our capacity. It is within our grasp.

Thank you.

1.

Burns, A. F. (1979), "The Anguish of Central Banking", Per Jacobsson Lecture, Belgrade, 30 September.

2.

The Governing Council has a rotation of voting rights system, but decision-making is by consensus.

3.

In addition to their perspective on developments in the euro area economy, each of the 21 national central bank governors offers substantial national expertise.

4.

Calculated based on the difference between the US equity stock held by euro area investors in 2025 (average of the first three available quarters) and 2024 (average of all four quarters). This difference is then adjusted to take into account the net purchase flow in 2025.

5.

Based on a purchasing power parity-adjusted gap in GDP per hour worked between the euro area and the United States of 13%, applied to euro area nominal GDP.

6.

Digital investment is proxied by digital physical infrastructure (e.g. data centre buildings) using non-residential construction in the information and communication sector; ICT equipment in the business economy and investment in computer software and databases, alongside research and development in the information and communication sector, hence capturing all investment in intellectual property products in this sector.

7.

Excluding Ireland.

8.

Government investment plus private investment (excluding housing).

9.

At constant prices.

10.

The Eurosystem staff macroeconomic projections for December 2025 see the current account surplus at 1.7% of GDP in 2026, 2027 and 2028.

11.

Lagarde, C. (2025), "[Opening remarks](#)" at the panel on the "Global Economic Outlook" at the 40th Annual G30 International Banking Seminar, Washington DC, 18 October.

12.

Elfsbacka-Schmöller, M., Goldfayn-Frank, O. and Schmidt, T. (2024), "[Do recessions slow technology growth? Evidence from the firm level](#)", *Bank of Finland Research Discussion Papers*, No 15, Helsinki; Elfsbacka-Schmöller, M. and Spitzer, M. (2021), "[Deep recessions, slowing productivity and missing \(dis-\)inflation in the euro area](#)", *European Economic Review*, Vol. 134.

13.

Kuik, F., Morris, R., Roma, M. and Slavik, M. (2025), "[Main findings from the ECB's recent contacts with non-financial companies](#)", *Economic Bulletin*, Issue 7, ECB.

14.

Aldasoro, I., Gambacorta, L., Pal, R., Revoltella, D., Weiss, C. and Wolski, M. (2026), "[AI adoption, productivity and employment: evidence from European firms](#)", *BIS Working Papers*, No 1325.

15.

Lagarde, C. (2025), "[The transformative power of AI: Europe's moment to act](#)", speech at the Bratislava AI Forum on artificial intelligence and education, Bratislava, 24 November.

16.

The Competitiveness Research Network (2023), "[Firm Productivity Report](#)", July.

17.

European Investment Bank (2025), "[EIB Investment Survey 2025](#)", Luxembourg, 14 October.

18.

Financial Times (2026), "[Investors pour billions into Europe's AI and defence start-ups](#)", 10 February.

19.

We should not expect these barriers to disappear altogether: not all products are equally tradeable, and national preferences will always play a role. Policy can reduce certain frictions, but it cannot eliminate them entirely.

20.

Bernasconi, R., Cordemans, N., Gunnella, V., Pongetti, G. and Quaglietti, L. (2025), "[What is the untapped potential of the EU Single Market?](#)", *Economic Bulletin*, Issue 8, ECB.

21.

Lagarde, C. (2024), "[Follow the money: channelling savings into investment and innovation in Europe](#)", speech at the 34th European Banking Congress, Frankfurt am Main, 22 November.

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