

## SPEECH

# From resilience to strength: unleashing Europe's domestic market

## Speech by Christine Lagarde, President of the ECB, at the 35th Frankfurt European Banking Congress

*Frankfurt am Main, 21 November 2025*

I would like to start with a quote:

“The world around us does not stand still.

In recent years, the global environment has been transformed in ways that none of us could have imagined. We have seen the post-war global order fracturing, the rise of new – and some old – powers, rapid changes in technology, and an uncertain outlook for global trade and finance.

Uncertainty abounds and conventional wisdom is being challenged, in politics, in diplomacy and in economics. And, unavoidably, this calls on Europe to consider its place in the world and reset its ambitions.”

This may sound like the kind of passage you have heard in many speeches this year. But, in fact, it is from the first speech I gave as ECB President – at this very conference in November 2019.<sup>[1]</sup>

In that speech, I urged Europe to recognise that its old growth model – built on export-led growth – was coming under strain.

And I called for a shift: to focus instead on developing our domestic economy as a source of resilience in an uncertain world.

My point was not to argue for protectionism or inward-looking policies.

It was about realism: recognising the world as it is. And it was about acknowledging that the solution was already in front of us: the untapped potential of our own internal market.

Six years on, that diagnosis has only become clearer and stronger.

Europe has become more vulnerable, also due to our dependency on third countries for our security and the supply of critical raw materials. Global shocks have intensified, with rising US tariffs, Russia’s invasion of Ukraine and stiffening competition from China.

At the same time, our internal market has stood still, especially in the areas that will shape future growth, like digital technology and artificial intelligence, as well as the areas that will finance it, such as capital markets.

And yet – as Galileo famously said – “it moves.” Europe continues to show resilience, revealing sources of strength that could grow if only we allow them to.

So the question I would like to address today is: how do we move from being resilient but vulnerable to being genuinely strong? And what will it take to do so?

## Vulnerabilities in Europe's growth model

Europe's vulnerabilities stem from having a growth model geared towards a world that is gradually disappearing.

We embraced globalisation more than any other advanced economy. In the two decades before the pandemic, external trade as a share of GDP almost doubled in the EU, while in the United States it barely moved.<sup>[2]</sup>

This deep integration brought significant benefits: the number of jobs supported by EU exports<sup>[3]</sup> rose by 75%, reaching almost 40 million<sup>[4]</sup> – and for many years, this was a source of resilience.

But today, that same openness has become a vulnerability. Exports have become a far less reliable engine of growth, reflecting the changing global landscape.

In mid-2023, for instance, ECB staff expected exports to grow by around 8% by mid-2025. In reality, they have not grown at all. And looking ahead, exports are projected to subtract from growth over the next two years.<sup>[5]</sup>

This has been felt most acutely in countries with large manufacturing sectors, which have faced a prolonged slump in industrial production.

As a result, growth across the euro area has become more uneven.

At the same time, this export-led growth model has resulted in a persistent current account surplus, increasing our reliance on other countries to generate our wealth – especially the United States.

Euro area residents now hold nearly 10% of their total equity investments in US stocks, totalling €6.5 trillion – about two times the amount they held at the end of 2015.<sup>[6]</sup>

This has been a rational response: US markets have delivered returns roughly five times higher than Europe's since 2000. But it has created a vicious circle.

As US markets channel European savings into high-productivity sectors, the performance gap between our economies widens – prompting yet more European savings to flow across the Atlantic.

The result is stagnating productivity at home and growing dependence on others.

Finally, we now face a new form of vulnerability shared by all major economies: the weaponisation of dependencies on key raw materials and technologies.

ECB analysis shows that more than 80% of large euro area firms are no more than three intermediaries away from a Chinese rare earth supplier.<sup>[7]</sup> Recent supply shocks – for example, the shortage of automotive chips – have shown how a single chokepoint can stall entire sectors.

These vulnerabilities do not trigger dramatic crises. Instead, they erode growth quietly, as each new shock nudges us onto a slightly lower trajectory.

Over time, the cumulative effect of this “lost growth” and lost productivity becomes material.

In mid-2023, ECB staff projected that the economy would expand by 3.6% cumulatively by mid-2025. In reality, it has grown by only 2.3% – a shortfall equivalent to an entire year of growth in normal times, and productivity has turned out worse.

## **Sources of resilience in the domestic economy**

Yet even as this changing world has exposed our vulnerabilities, 2025 has revealed Europe’s latent strengths. Our experience this year has shown that a resilient domestic economy can shield Europe against global turbulence.

Three sources of domestic strength have helped cushion the impact of global shocks – our *people*, our *potential* and our *policy*.

First, our people.

We have benefited from an unusually strong labour market – one that has remained remarkably resilient even as growth has slowed.

Typically, employment tends to grow at roughly half the pace of real GDP. Yet since the end of the pandemic, that relationship has been almost one-to-one in Europe.<sup>[8]</sup>

This strength has created a virtuous circle: rising employment has supported consumption, which in turn has sustained services output and created still more jobs – particularly in labour-intensive sectors.<sup>[9]</sup>

Second, our potential.

Despite the notion that Europe is lagging behind in AI, European firms are moving quickly through the digital transition – and that is making investment more resilient to global uncertainty.

While tangible investment has fallen in the past two years as manufacturing has weakened, intangible investment has risen sharply<sup>[10]</sup>, keeping overall business investment broadly stable.

Firms continue to invest in AI and digital infrastructure because, for any company that wants to stay competitive, these are no longer optional.

Third, our policy.

Fiscal policy, in particular, has acted countercyclically, buffering the economy rather than amplifying downturns, as we saw after the financial crisis.

The fiscal packages now being implemented for defence and infrastructure – especially here in Germany – are coming at the right time for Europe and will have a measurable effect on growth.

ECB staff estimate that higher government investment between now and 2027 will offset around one-third of the trade shock.<sup>[11]</sup>

The ECB is also playing its part by delivering price stability. We have cut interest rates by 200 basis points from their peak, and this is increasingly feeding through into easier financing conditions, which is helpful to support demand.

We will continue to adjust our policy as needed to ensure that inflation remains at our target.

Together, these three sources of resilience will help anchor growth at home. Domestic demand is set to become the main engine of expansion in the years ahead.<sup>[12]</sup> And this shift should also help narrow Europe's current account surplus, which has already halved since its peak in 2018.<sup>[13]</sup>

## **The potential of the domestic market**

This experience underlines the power of a resilient domestic economy, strengthened by open strategic autonomy. But it also exposes how much potential Europe continues to leave untapped.

Today, despite more than 30 years of the Single Market, trade barriers within the EU remain too high in key areas.

ECB analysis finds that internal barriers in services and goods markets are equivalent to tariffs of around 100% and 65%, respectively.<sup>[14]</sup> Of course, 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.<sup>[15]</sup>

But we should expect two things.

First, that barriers are low enough for the sectors that will shape future growth to operate in a truly European market.

This is clearly not the case for digital services, which will drive future innovation, and capital markets, which must finance it.

Second, we should expect that being inside the Single Market offers a clear advantage over being outside it – in other words, that internal barriers are lower than external ones.

But this is also not currently the case for services: over the past 20 years, barriers to cross-border trade within Europe have been declining no faster than those faced by international firms seeking to operate here.

This helps explain why, even though services now account for three-quarters of Europe's economy, trade in services within the EU makes up only about one-sixth of GDP – roughly the same as our trade in services with the rest of the world.

This is a vast waste of potential – especially at a time when we must rely more on ourselves than on others. And the key point is that *achieving these gains would not require radical change*.

Our analysis shows that if all EU countries were merely to lower their barriers to the same level as that of the Netherlands, internal barriers could fall by about 8 percentage points for goods and 9 percentage points for services.<sup>[16]</sup>

If we only did a quarter of that, it would be sufficient to boost internal trade enough to fully offset the impact of US tariffs on growth.<sup>[17]</sup>

So the question we must now ask is: why are we not taking these steps?

## Towards a new governance

The answer comes down to governance.

Fully harmonising all national laws and regulations is not realistic, nor is it always even necessary. But we lack effective tools to overcome barriers in the areas where progress matters most.

I believe that three steps can help us move forward.

The first is to revive the principle of mutual recognition – the very engine of liberalisation that powered the Single Market in the 1980s.

Mutual recognition means that if a good or service is lawfully provided in one Member State, it should be allowed to circulate freely across the EU without the need to comply with every other country's rules.

For example, in the EU there is a system of automatic recognition of professional qualifications for a number of sectoral professions.

Such mutual recognition is also visible in financial services. Today, banks benefit from a passporting system: a single licence granted by the ECB enables them to provide services across Europe. But they still face different rules in foundational elements of the framework they operate in. Completing the banking union and deepening our capital markets would therefore be transformative, accelerating our path towards a truly integrated home market.

The same logic applies to the digital economy. Just as passporting embodies mutual recognition in banking, the mutual recognition of digital identities, trust services and other credentials would dramatically improve interoperability and eliminate hidden costs that are slowing the growth of Europe's digital markets.

The second step is to streamline decision-making – by extending qualified majority voting to the areas on which Europe's future growth depends.

While qualified majority voting has been instrumental in driving integration, it has now largely reached its limits. In several critical fields, the continued requirement for unanimity in the European Council still prevents meaningful progress towards completing the Single Market.

Taxation is the clearest example. Reforms such as harmonising VAT rules or establishing a common consolidated corporate tax base remain stuck because of national vetoes, leaving firms to navigate a maze of fragmented tax regimes.

This fragmentation is especially damaging in a world of digital business models and intangible assets, where tax policy cannot be managed within national borders alone.

For example, a digital platform providing cloud or software services across Europe must currently comply with 27 different VAT systems, each with its own definition of where value is created for tax purposes.

This complexity tilts the playing field towards large US firms that can absorb the associated costs – exactly the opposite of what Europe needs if it wants to nurture its own digital champions.

Moving to qualified majority voting, using the passerelle clause where necessary – which allows the European Council to shift specific areas from unanimity to majority voting without changing the Treaties – could help break this deadlock.

The third step is to take a more radical approach to simplification – and I do not mean simply trimming regulations through the Omnibus packages.

The fastest way to achieve genuine simplification is not by repealing existing rules, but by creating new “28th regimes” – optional EU legal frameworks that sit alongside national law rather than replacing it.

These frameworks would allow firms to opt into a single European rulebook in specific areas, without requiring full harmonisation across all Member States.

A prime candidate is company law<sup>[18]</sup>, as proposed in the Letta and Draghi reports.

A European company law regime would provide firms – in particular start-ups and scale-ups – with a simpler path to operate across borders, cutting through the complexity of 27 different national systems.

This approach has worked before. The EU Trademark (1993) and Community Design (2001) were both 28th regimes, offering optional EU-wide intellectual property titles alongside national rights. And both have been widely adopted, especially by firms active across multiple markets.

Their success shows how an optional EU framework can reduce fragmentation and even generate healthy “systems competition”: when firms choose the EU rules, national systems are put under pressure to adapt.

The European Commission is planning to present a 28th regime proposal as part of its renewed and welcome ambition to set clear deadlines for removing barriers identified in the “Single Market Roadmap to 2028”. But progress will depend on political will.

The first step may be modest – such as creating a digital business identity, giving firms a single trusted profile to register and operate online across the EU – but it could set a powerful precedent for broader reforms to follow.

If we get this right, firms that could grow based on genuinely European regimes would also be best placed to access pan-European financing, helping to channel our vast savings into productive investment.

Completing the Single Market – in the real economy and in finance – is therefore a mutually reinforcing project, strengthening Europe’s competitiveness and its capacity to invest in the future.

## Conclusion

The world will not slow down for Europe – but we can decide how we move forward.

If we make our Single Market truly single, Europe’s growth will no longer depend on the decisions of others, but on our own choices.

This was my message six years ago. Today, that message has only grown more urgent.

Another six years of inaction – and lost growth – would not just be disappointing. It would be irresponsible. But the experience of this year should also give us confidence.

It has shown that our economy has real sources of strength – and that, if we act, those strengths can be multiplied.

The steps we need to take are not beyond our reach.

They require no new treaties, no radical rewiring of our Union – only the political will to use the tools we already have.

If we can summon that will, Europe can move from being merely resilient to being genuinely strong.

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1.

Lagarde, C. (2019), "[The future of the euro area economy](#)", speech at the Frankfurt European Banking Congress, Frankfurt am Main, 22 November.

2.

External trade as a share of GDP rose from 26% to 43% in the EU, whereas it increased from 23% to just 26% in the United States.

3.

To non-EU countries.

4.

Rueda-Cantuche, J.M., Piñero, P. and Kutlina-Dimitrova, Z. (2021), [EU Exports to the World: Effects on Employment](#), Publications Office of the European Union, Luxembourg.

5.

See footnote 12 for details.

6.

ECB (2025), "[Euro area quarterly balance of payments and international investment position:fourth quarter of 2024](#)", *statistical release*, 4 April.

7.

Banin, M., D'Agostino, M., Gunnella, V. and Lebastard, L. (2025), "[How vulnerable is the euro area to restrictions on Chinese rare earth exports?](#)", *Economic Bulletin*, Issue 6, ECB.

8.

Between the end of 2021 and mid-2025, cumulative employment rose by 4.1% – an increase of 6.3 million of people in employment – while real GDP increased by 4.3%. See Lagarde, C. (2025), "[Beyond hysteresis: resilience in Europe's labour market](#)", opening panel remarks at the annual Economic Policy

Symposium “The policy implications of labour market transition” organised by the Federal Reserve Bank of Kansas City in Jackson Hole, 23 August.

9.

Anderton, R., Aranki, T., Bonthuis, B. and Jarvis, V. (2014), “[Disaggregating Okun's law: decomposing the impact of the expenditure components of GDP on euro area unemployment](#)”, *Working Paper Series*, No 1747, ECB, December.

10.

Excluding volatile Irish assets.

11.

Lagarde, C. (2025), “[Trade wars and central banks: lessons from 2025](#)”, keynote speech at the Bank of Finland’s 4th International Monetary Policy Conference, Helsinki, 30 September.

12.

Cumulatively, ECB staff expect domestic demand to add 3.1 percentage points to growth between the second quarter of 2025 and the fourth quarter of 2027, while exports are projected to subtract 0.6 percentage points. See ECB (2025), [ECB staff macroeconomic projections for the euro area](#), September.

13.

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

14.

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 (forthcoming). These “tariff equivalents” should be understood as measures of estimated trade frictions rather than actual policy-imposed tariffs. They reflect a combination of policy-related barriers and structural or cultural factors – such as consumer preferences and taste differences – that cannot be directly addressed through policy alone.

15.

Head, K. and Mayer, T. (2025), “[No, the EU does not impose a 45% tariff on itself](#)”, VoxEU column, Centre for Economic Policy Research, 13 November.

16.

Bernasconi, R. et al (2025), op. cit.

17.

According to ECB simulations, this reduction in barriers would raise trade within the EU by around 3%, offsetting the 0.7 percentage point reduction in GDP growth between 2025 and 2027 caused by US tariffs and the related uncertainty.

18.

So far, most legal reforms aimed at improving the business environment have relied on soft coordination, voluntary standards or limited harmonisation directives. This approach reflects national sensitivities in certain areas (e.g. company law, tax law and labour law) that remain primarily a Member State competence. However, previous attempts at soft convergence have only led to modest results.

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