

Joachim Nagel: Building blocks for a strong and sovereign Europe

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the Rhine-Main area management group of the Friedrich-Ebert-Stiftung, Frankfurt am Main, 22 September 2025.

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1 Introduction: recognising the signs of the times

Ladies and gentlemen,

Europe's sovereignty is currently being challenged by various angles, such as enhancing defence capabilities. It would also appear advisable for Europe to become more economically independent. For instance, we depend on non-European providers for payments and many digital services. The EU Member States need to work together more closely and also step up cooperation with willing third countries. After all, it is important for us to represent our common values and interests as best as we can.

But it is not just European sovereignty that is being challenged. Doubts have also arisen on the other side the Atlantic regarding the safe-haven status of the US dollar.

Immediately after the US tariff announcements at the beginning of April, exchange rate movements were atypical for periods of heightened uncertainty in the financial markets. The US dollar did not benefit from its status as a safe haven, but depreciated instead. It seems possible that international investors' loss in confidence will persist.

This certainly does not signal the end of the US dollar as the world's leading currency, but Europe should recognise the signs of the times. Despite the adverse circumstances, we are called upon to do whatever is necessary to ensure that Europe and the euro continue to play an important role on the world stage in the future. I'd like to explain this in more detail in three steps, starting with the question of what we mean by a strong euro.

2 A strong euro—what does that mean?

Above all, strength means stability. A currency's purchasing power should remain stable over time in order to maintain price stability. Price stability ensures stable economic conditions that make long-term planning possible. In this vein, you, in your group of managers, are connected to us on the ECB Governing Council: if we do our job well—in other words fulfil our mandate—you are better able to fulfil your tasks, for instance when making business investment decisions.

A strong and stable currency also requires stability-oriented fiscal policy and overall predictable policies. Military clout is also necessary to ensure external security if the worst comes to the worst. Other key conditions for the strength or international importance of a currency are deep, liquid and open capital markets as well as a wide range of high-quality safe assets.

The euro is currently the second most important currency in the world. Its share across various indicators of international currency use stood at around 19% in 2024.¹ This was largely unchanged from previous years. The gap to the US dollar is large, but so is the advantage over other currencies.

Recent exchange rate developments have led to economic policy debates.² The euro has appreciated by 12.5% against the US dollar since the beginning of the year. This raised concerns in some cases that the euro-US dollar exchange rate had reached a level that was placing an excessive strain on the euro area export industry.

However, it is more meaningful to look at how the euro has developed against the currencies of several trading partners. Its effective appreciation in the year to date came to only 5.7% against a group of 18 partner currencies. This figure was 6.2% against a group of 41 partner currencies. Simply analysing the euro's gains against the US dollar thus overstates how much the German export industry is being burdened.

Nevertheless, revised data indicate that the price competitiveness of both Germany and the euro area has deteriorated in recent years.³ According to Bundesbank calculations, the recent appreciation of the euro has contributed to the price competitiveness of the German economy and the euro area no longer being favourable, but rather neutral. Overall, I am not concerned about the euro's current valuation level.

The depreciation of the US dollar this year can be attributed to various factors. Most recently, differences in interest rate developments on both sides of the Atlantic played a role in particular, influenced by the expected course of monetary policy in the two economic areas.

As mentioned earlier, the first signs of a loss in confidence in the US currency caused by political factors emerged after the day President Trump dubbed "Liberation Day" in April. In addition, the tax and fiscal package, the Big Beautiful Bill, has led to growing fears about US debt sustainability. Increasing concerns about the independence of the US central bank has also harmed confidence in the dollar. It appears that it is no longer seen unreservedly as a safe haven.

However, it is neither on the cards nor desirable for the US dollar to be replaced as the world's leading currency. Nevertheless, there are tendencies towards greater diversification of foreign reserve assets. In this respect, the question of greater global importance of the euro is perfectly justified. In my view, a stronger international role for our single currency would be desirable.

This is because, not least, it promises funding cost advantages for Member States and enterprises. However, of course this would not change the fact that favourable financing conditions also require stability-oriented fiscal policy. Sound fiscal policy pursued by euro area countries tends to result in there being more high-quality and safe government bonds in the euro area. That is likely to support the international role of the euro.

3 Strengthening Europe's sovereignty

Let us now turn to step two: promoting European sovereignty. Needless to say, geopolitical changes have injected new urgency into this topic. Protectionist tendencies were already evident before the new US administration made its drastic pivot in trade policy.

In an increasingly fragmented world, it is especially important for Europe to make the best possible use of its single market's potential. Strikingly, estimates by the International Monetary Fund have shown that trade barriers within the European Union in 2020 were equivalent to tariffs of 44% for industrial products and as high as 110% in the case of services.⁴ There are still considerable barriers to be removed.

Moreover, greater integration of European financial markets would be a huge opportunity and highly welcome.⁵ I have already made the case for this on numerous occasions.⁶

European households' high level of savings should be better channelled towards more innovation, productivity and competitiveness.⁷ Our savings are urgently needed to finance the green and digital transitions in Europe, as well as defence spending.

The Savings and Investments Union would simplify cross-border investment and enable a more efficient use of funds. The cost of capital is likely to decline in the case of a larger and more diverse supply of capital. Thus, financially stronger integration in Europe could also close gaps if funding sources dry up due to geo-economic fragmentation. Moreover, a better distribution of risks across borders would be possible, making the European economy more resilient to shocks.⁸ All in all, progress in the Savings and Investments Union is expected to significantly increase Europe's economic strength and attractiveness.

Ladies and gentlemen, it is not just the new geopolitical environment that supports strengthening European sovereignty. In addition, there is a second reason that could potentially create new realities: stablecoins. A lot of fuss about nothing; we shouldn't get unnecessary worked up about this—you might be thinking this or something along these lines. For me, it is important to contextualise current developments and prospects in a rational way.

Stablecoins are digital tokens issued by private issuers, which aim for value stability. Their value is therefore tied to assets. In practice, these are currently often assets denominated in US dollars such as government bonds or bank deposits. Stablecoins have thus far played a limited role, but their market is growing. This is because they offer something that does not exist like this elsewhere, such as programmable payments for non-banks, meaning that delivery-versus-payment transactions can be carried out immediately and automatically.

In July, US President Donald Trump signed the "GENIUS Act". This regulatory framework is intended to further expand the dominance of the US dollar through stablecoins. As the regulation requires every stablecoin to be fully backed and the backing can be in the form of short-term US Treasuries, the GENIUS Act supports demand for short-term US Treasuries.

The Bank for International Settlements (BIS) took a close look at stablecoins in its latest Annual Economic Report.⁹ To quote the BIS directly, Stablecoins as a form of sound money fall short, and without regulation pose a risk to financial stability and monetary sovereignty."¹⁰

In my view, stablecoins do indeed carry risks. A loss of confidence could lead to redemptions of stablecoins on a massive scale and fire sales of reserve assets—with spillover effects on money and bond markets. And yes, such crypto-assets should not be allowed to spread in an uncontrolled manner. In Europe, the Markets in Crypto-Assets Regulation, or MiCA, has established a regulatory framework for crypto-assets, including stablecoins. The regulatory guidelines should be updated and refined where necessary.

But stablecoins hold opportunities as well as risks. In certain areas of application, such as the direct and automated delivery-versus-payment transactions I mentioned earlier, they can offer added value and complement existing structures in a useful way. Overall, framework conditions should remain innovation-friendly—not least with respect to European issuers' euro-pegged stablecoins.

In the digital financial system of the future, Europe must be mindful of its sovereignty. That is another reason why, here in Europe, we want to take a different approach to digital central bank money than, say, the United States. In the United States, digital central bank money is prohibited by executive order. This brings me to the third step I want to discuss today.

4 Promoting digital central bank money

European digital central bank money could help to strengthen the role played by the euro internationally. It would be an important milestone for the Savings and Investments Union, and a logical response to stablecoins.

There are two types of digital central bank money: the retail variant could be used at any time by anyone wishing to make an electronic payment—whether at the point of sale, when shopping online or for payments among friends. The wholesale variant would be used to settle transactions between financial institutions in central bank money using new technologies. Both types of digital central bank money could help to strengthen the euro area's resilience, autonomy and efficiency in the field of payments.

Let me briefly turn to the current situation regarding the digital retail euro. It is intended as a digital supplement to cash that would be available free of charge anywhere in the euro area. In mid-July, the ECB published its third progress report on the digital euro preparation phase.¹¹ Work on the draft rulebook has progressed further, with advances in technical testing, user research and engagement with stakeholders.

It is crucial for the Eurosystem's work that the necessary legislation is adopted as quickly as possible at the European level: the digital euro needs a legal basis before a decision can be taken on its introduction. As things stand, it probably won't be possible to launch the digital euro before 2028.

In my view, the time is ripe for central banks to offer a digital complement to cash. People's needs and preferences have changed. They are tending to use less and less cash. But they value cash characteristics, like privacy. The digital euro would meet the highest standards of data protection and privacy. In addition, an offline solution would be available even without an internet connection or given technical disruptions.

Banks and other payment service providers could use the public infrastructure for the digital euro as a basis for innovation. So far, cash is the only European means of payment that is accessible and accepted throughout the euro area. For our electronic payments, we often have to rely on a handful of non-European companies.

The digital euro would make one of Europe's critical infrastructures more independent. This seems more important than ever in view of growing geopolitical tensions and uncertainties. The same applies to wholesale digital central bank money.

The ability to settle large-value critical financial market transactions in central bank money based on distributed ledger technology, or DLT, would have the following advantages: more efficient—that is, faster—settlement processes, a higher degree of automation, programmability, streamlined and thus cheaper settlement processes, and reduced settlement risks.

In an exploratory phase, the Eurosystem tested three solutions together with financial market participants.¹² Market demand was high and participants expressed their interest in a continuation after the trial phase. In early July, the ECB presented a dual-track strategy for the settlement of DLT transactions.¹³

"Pontes" is the short-term track, which is intended to provide a pilot solution by the end of 2026 to link DLT platforms to our TARGET services. The aim is to offer a swift and pragmatic solution to meet the high market demand. It is important to act as quickly as possible so that market participants do not opt for alternatives such as stablecoins. The long-term track "Appia" aims to achieve an innovative and integrated financial ecosystem in Europe. This solution is also intended to be globally compatible.

At the end of this chapter on the meaning and purpose of digital central bank money, it's important to add that changing needs and technologies demand a response. We central banks have to move with the times. Even in an increasingly digital world, the euro should and will remain an attractive means of payment for all. The Eurosystem has played a pioneering role with its extensive work on digital central bank money.

5 Conclusion: Take fate into our own hands

In conclusion, I have outlined the key building blocks for a strong and sovereign Europe. These can complement each other, mutually amplify their impact and combine to form an impressive whole. The launch of the retail digital euro and wholesale digital central bank money would be milestones for the Savings and Investments Union. All of the building blocks would counteract existing and potential fragmentation. They would also help to strengthen the role played by the euro internationally.

For one thing, the US dollar is no longer seen unreservedly as a safe haven. For another, dollarisation could increase if US dollar stablecoins become more widespread.

For the foreseeable future, it appears neither realistic nor desirable for the euro to replace the US dollar as the world's key currency. However, it certainly would be both possible and desirable for the international importance of the euro to increase.

In a world of change, Europe should not surrender to its fate, but should confidently take it into its own hands. On that front, we can take the words of Henry David Thoreau as encouragement, or even a warning: What a man thinks of himself, that it is which determines, or rather indicates, his fate." We have strong foundations: democracy, the separation of powers and the rule of law. Independent media, independent statistics collection, an independent central bank. We have our single market, successful firms and highly skilled workers.

I have no doubt that we are prepared to take the three steps I've outlined—for a strong euro, for a sovereign Europe, for a modern and resilient European payments system with the digital euro. If we take these steps, we will increase Europe's economic strength, attractiveness and independence.

¹ European Central Bank (2025), [The international role of the euro](#), p. 2.

² [Deutsche Bundesbank, Financial Markets, August 2025](#), supplementary information in the Monthly Report: Measures of the appreciation of the euro in the monetary policy debate.

³ [Deutsche Bundesbank, Financial Markets, August 2025](#), supplementary information in the Monthly Report: Recent data revisions indicate less favourable price competitiveness in Germany and the euro area.

⁴ International Monetary Fund, [Regional Economic Outlook for Europe, October 2024: A Recovery Short of Europe's Full Potential](#), p. 18.

⁵ For an overview of the Savings and Investments Union, see European Commission (2025), [Factsheet: Savings and Investments Union—European Commission](#) und [Questions and answers on the Savings and Investments Union](#). For a comprehensive study on the capital markets union, see European Central Bank (2025), [Capital markets union: a deep dive—Five measures to foster a single market for capital](#), Occasional Paper No 369.

⁶ For example, Nagel J. and F. Villeroy de Galhau (2022), [Time for a genuine capital markets union | Deutsche Bundesbank](#) and Nagel J. (2024), [Joint European responses to the challenges we face | Deutsche Bundesbank](#).

⁷ Letta, E. (2024), [Much more than a market](#), pp. 28 ff., Draghi, M. (2024), [The future of European competitiveness](#), Part A, pp. 63 ff., ECB (2024), [Financial Integration and Structure in the Euro Area](#).

⁸ Walch, K. and B. Weigert, Die Zukunft des europäischen Finanzsystems—die Bedeutung von Resilienz und Integration, [ifo Schnelldienst 7/2024: The Future of the European Financial System | Journal \(Complete Issue\) | ifo Institute](#).

⁹ Bank for International Settlements, The next-generation monetary and financial system, [Annual Economic Report 2025](#).

¹⁰ Bank for International Settlements (2025), [Press release: Next-generation monetary and financial system takes shape, based on a tokenised unified ledger: BIS](#).

¹¹ European Central Bank (2025), [ECB publishes third progress report on the digital euro preparation phase](#).

¹² European Central Bank (2025), [The Eurosystem's exploratory work on new technologies for wholesale central bank money settlement](#).

¹³ European Central Bank (2025), [ECB commits to distributed ledger technology settlement plans with dual-track strategy](#), Deutsche Bundesbank (2025), [Digital money: options for large-value payments in central bank money | Bundesbank publications](#).