Joachim Nagel: Europe and its euro – fit for the future?

Address by Dr Joachim Nagel, President of the Deutsche Bundesbank, to mark the awarding of the Heinrich Hertz Guest Professorship, Karlsruhe, 5 October 2023.

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1 Introduction

Ladies and gentlemen, students of the university,

It is a great honour for me to be awarded this year's Heinrich Hertz Guest Professorship.

I would like to thank KIT and the KIT Freundeskreis und Fördergesellschaft e.V., and all of you, for turning out today to attend this address.

The honour is great if nothing else given the impressive list of people and topics that have so far been awarded the Heinrich Hertz Guest Professorship.

May I say up front: I could well be the first and only true native of Karlsruhe on this list. I come from Karlsruhe; I grew up here. The University of Karlsruhe is my alma mater; I studied here and worked here as a mid-level faculty member. My ties with Karlsruhe run very deep.

You can therefore imagine what this award means to me.

Then there is the fact that many of the honorees came from the fields of science and technology. As the head of an institution that has the status of a supreme Federal authority, I am more of a "rara avis".

That said, I am not the first Bundesbank President to be given the award: Helmut Schlesinger received it exactly 30 years ago.

In my keynote address today, I would like to focus on Europe and its monetary union – "the big picture", so to speak – and ask: is the euro "fit for the future"?

I have divided my speech for today into four parts:

1. Where do we stand after 25 years of the euro?
2. What was the historical mission of the monetary union?
3. What institutional reforms have taken place in the euro area and which ones are still outstanding?
4. And what are the challenges facing Europe and the euro?

Fortunately, Karlsruhe is well suited to such projects.

After assuming his professorship in Karlsruhe in 1885, Heinrich Hertz wrote to his parents with gratitude: I am fine, but I still have a lot to do for the time being. - Yesterday, I was at least able to shake off one vexation: the inaugural lecture ("On the Energy Balance of the Earth"). The faculty of professors was in nearly full attendance. - I was quite dissatisfied with my speech, it felt to me like an utter failure. Despite that, I only heard friendly words; this therefore demonstrates how easily satisfied the audience was.

Fellow people of Karlsruhe: in the knowledge and awareness of your expertise, I would prefer today to count on your goodwill.

2 Where do we stand after 25 years of the euro?

It has now been nearly a quarter of a century since the euro was introduced. A good time to look back on 25 years of the single currency. And to recall that the creation of a monetary union was met with great scepticism, especially in economic circles.

The euro is coming too soon was the name of a manifesto signed in February 1998 by 155 German professors. However, voices of warning were heard not only in Germany. Nobel laureate Milton Friedman, for example, predicted that the euro would collapse again soon after its introduction.

Although that prediction turned out to be incorrect, some of the problems foreseen by Friedman and others actually ended up occurring. For starters, however, everything went smoothly with the euro.

Three years after the euro was introduced as a book currency, it also entered into circulation as cash. And thus squarely into the awareness of the general public.

You may remember the small plastic bags known as "starter kits". In Germany, they contained coins worth €10.23, the equivalent of 20 Deutsche Mark. Prior to this, a large-scale ad campaign was launched, with prominent backing, to encourage people to return their Deutsche Mark holdings at an early stage.

Meanwhile, enthusiasm for the new notes and coins quickly subsided. After the changeover, many felt that the euro had actually become a "teuro" – a German play on the word "teuer," or "expensive". However, this effect was not borne out by statistical evidence.

In the long run, the euro has already proved to be a stable currency. The chart tracks inflation in the euro area since 1999. In the early years, inflation rates were mostly above 2%, but only marginally.

This speaks to the success of the euro area national central banks and the European Central Bank, which together comprise the Eurosystem. It was able to credibly communicate that it would conduct a stability-oriented monetary policy.

Of course, the Eurosystem also lucked out by being launched during the "Great Moderation". That was the name given to the spell of relatively calm global economic developments at the time – which is to say, solid growth, subdued inflation and moderate fluctuations in economic activity.

Within the euro area, the convergence process continued during this period, with economies becoming more closely intertwined. Financing conditions in the Member States converged. In particular, for interbank financial transactions, it no longer mattered where in the euro area a bank was domiciled.

Sovereign bond market yields also converged. Hence Greece, though already highly indebted at that time, was able to borrow on almost the same terms as Germany.

In retrospect, these halcyon days are sometimes also referred to as the euro's "honeymoon period".

The honeymoon came to an abrupt end when the crisis in the US real estate market spilled over to the European financial markets in the summer of 2007. It became evident that European banks, too, had used ever more risky securitisations to invest in the infamous subprime loans.

Subprime loans are mortgage loans to individuals that involve above average levels of risk. When the real estate bubble burst, large numbers of these loans defaulted one after the other. The securitisations into which these loans had been packaged collapsed like a house of cards, tearing gaping holes in banks' balance sheets.

The subprime crisis evolved into a global financial crisis and peaked in the autumn of 2008. That was when the US investment bank Lehman Brothers collapsed. You may still remember the statement given by Germany's Chancellor Angela Merkel and the country's Finance Minister, Peer Steinbrück, 15 years ago to the day, incidentally.

The inflation rate in the euro area had risen to 4% by the summer of 2008, but fell below zero for the first time ever as a result of the global financial and economic crisis.

Some euro area countries recovered fairly quickly from the crisis: for example, Germany. Other countries, meanwhile, took much longer to recover. And the financial markets now took a much more critical view of these countries' structural weaknesses, in the banking system, say, or in terms of government debt.

Risk premia on these countries' government bonds had already risen during the financial crisis and continued to go up sharply thereafter. This made it increasingly expensive and difficult for the countries concerned to replace maturing government bonds.

Greece, in particular, but also Ireland, Portugal, Spain and Cyprus experienced massive financial problems – though for different reasons. The sovereign debt crisis in the euro area at times even cast doubt on the continued existence of the monetary union.

The markets calmed down, in no small part thanks to Mario Draghi's announcement in the summer of 2012 that the ECB would do whatever it takes to preserve the euro. Ultimately, however, this crisis was overcome only through a massive joint effort by the Member States, the Eurosystem and the International Monetary Fund. It should not be forgotten in all this that it was, first and foremost, the people in the crisis-hit countries who bore the brunt of the inevitable adjustment measures.

The euro area debt crisis was followed by several years of exceptionally low inflation from 2013 onwards. For a time, the inflation rate even slipped back into negative territory.

While that may at first glance seem beneficial for consumers, it is decidedly problematic from a monetary policy perspective. Very low or negative inflation rates can lead to a dangerous downward spiral. And while a central bank can combat excessively high inflation by raising interest rates sharply, excessively low inflation is a more difficult problem. If the inflation rate is lower than desired, the central bank cannot lower interest rates as much as it wants to bring the inflation rate back up to the target.

Between 2008 and 2019, the Governing Council of the ECB lowered the current main policy rate – the deposit facility rate – from over 3% to minus 0.5%. However, key interest rates cannot be lowered much further. You see, if interest rates are lowered significantly into negative territory, it becomes more advantageous to move money out of accounts and into cash.

But with the inflation rate in the euro area still below the 2% target, further monetary policy measures were needed. One was to communicate clearly that higher interest rates should not be expected for an extended period of time. A second was to buy bonds on a large scale in order to bring down long-term interest rates, too.

Between 2009 and 2019, the Eurosystem purchased bonds to the tune of more than €2,500 billion. Monetary policy was therefore already very expansionary when a further crisis hit in March 2020, the COVID-19 pandemic.

The Governing Council of the ECB responded by launching the pandemic emergency purchase programme, or PEPP. By making additional large-scale asset purchases, it aimed to prevent the pandemic from jeopardising price stability.

And the inflation rate did indeed drop to just below zero again. Then, as of 2021, prices started to appreciate sharply. This was, incidentally, a worldwide, not just a euro area phenomenon.

It was triggered by an unexpectedly rapid recovery of the global economy following the sudden downturn caused by the pandemic. A lot of pent-up demand, which was additionally fuelled by monetary and fiscal policy, came up against a limited supply of goods and services.

In other words, prices started to rise even before Russia's terrible war of aggression against Ukraine. However, the resulting energy and food crisis accelerated the increase in prices noticeably. Prices rose so sharply that euro area inflation hit double digits for the first time ever in the autumn of 2022.

When I took office back in January 2022, it was already clear to me that monetary policy had to act. A wait-and-see approach definitely wasn't an option. And the ECB's Governing Council has indeed acted decisively to prevent high inflation from becoming entrenched.

We have ended net purchases under the asset purchase programmes and raised key interest rates sharply: since July 2022, they've gone up by 4½ percentage points, the largest and swiftest rate hikes ever seen in the euro area.

Although inflation is now coming down again, the "greedy beast" has not yet been tamed. It is worrying that core inflation, which excludes the volatile energy and food price components, is still very high. Core inflation casts an interesting light on the underlying inflation trend, and that is clearly not yet broken.

We on the ECB's Governing Council must maintain our restrictive stance until we can be sure that inflation will return to our medium-term target of 2%.

Looking back at the past 25 years, European monetary policy nevertheless has a good track record. During the period as a whole, the euro area inflation rate has averaged 2.1%. In the long term, the euro has therefore proved a stable currency, as promised.

From this perspective, the euro can be regarded as a success story. But what about the original political objectives associated with the creation of monetary union? Has the euro promoted political integration in Europe? Or has it actually proved a divisive factor?

In order to answer these questions, it makes sense to remember how Europe got its single currency. To do this, we need to broaden our scope and take a bird's eye view of the matter.

3 The historical mission of the monetary union

3.1 Political and historical framework

We need to shift from a blackbird's perspective of day-to-day politics to an eagle's perspective of contemporary history, so to speak. From above, we are able to view 25 years of the euro in the context of 75 years of European integration.

European Economic and Monetary Union was envisaged as a European peace project.

What factors shaped European integration policy? The historical experience of war, and the dichotomy between capitalism and communism.

Overcoming the historical animosity between Germany and France – the Franco-German enmity – formed the basis of European integration. Meanwhile, geopolitics were determined by the brewing Cold War – the division between east and west.

In this world order, work on European integration had been under way since 1950, and, later on, work on a single currency became a central focus of this integration project. The aim was thus economic integration of western Europe – not least against the backdrop of the Cold War.

However, when the euro was finally introduced, the Eastern Bloc was already history. So was the euro the answer to a question that was no longer even relevant?

Perhaps. And yet, we can be glad today that we have the euro. I, for one, firmly believe that without the euro, we would have come through the aforementioned crises of recent years in far worse shape. Thanks to the euro, we have been spared severe turmoil in the foreign exchange markets.

3.2 A monetary union as a European peace project

European integration, which ultimately led us to monetary union, began in the middle of the Cold War. It was devised as a strategic policy for promoting peace intended to be implemented through economic integration.

The closer and deeper the economic ties between countries, the less they are able to plan and wage wars against each other. This was a lesson learned from two world wars.

Many areas of economic policy – commodities, industry, agriculture and trade – thus saw rapid progress when it came to integration.

This is why serious proposals for achieving monetary union in this united Europe were being made from the early 1960s.

Initially, the Bretton Woods monetary system provided the framework – it was a system of fixed exchange rates with global currencies pegged to the US dollar. But when the end of Bretton Woods loomed, progress continued in Europe.

The three-stage Werner Plan proposed by the Prime Minister of Luxembourg, Pierre Werner, gradually made the project of a single currency more tangible in 1969. Despite this, it still took 30 years for monetary union to become a reality – three decades featuring dramatic changes, including the fall of the Berlin Wall and the collapse of the communist Eastern Bloc.

During that period, there was intense debate about whether a monetary union requires a political union. Both economic theory and historical experience indeed suggested that a monetary union has little chance of functioning over the long term without broad political union.

Why is that?

3.3 Theory of monetary unions

In order for a single currency to have roughly the same purchasing power everywhere and not to overwhelm the various regions, it is necessary to even out the differences in performance in the currency area to a certain degree.

This can be achieved, for instance, through the free movement of labour, capital, goods and services throughout the monetary union. Flexible prices and wages are also among the mechanisms that can ensure differences are evened out.

Or this can happen via transfer systems:

- taxes and government payments;
- compensatory payments, such as a financial equalisation scheme;
- and via social security systems.

3.4 Monetary union and Europe since 1990

In this sense, every state with a national currency is a monetary union in economic terms. The four basic freedoms are usually combined with a transfer system in practice.

In a monetary union of sovereign states, there is no large equalisation mechanism. An individual state can also no longer simply devalue its currency in nominal terms to boost its competitiveness. Furthermore, it would jeopardise the monetary union if a state were to increase its government debt by as much as it likes. That is a lesson which the sovereign debt crisis taught us.

For a monetary union of sovereign states to be able to function over the long term, alternative equalisation mechanisms are therefore needed. In addition, members must be willing to surrender at least some of their sovereignty, by relinquishing rights or adhering to common rules, for example.

Experts in academic and political spheres recognised that a monetary union without political union can only be successful on a lasting basis with a great degree of discipline and a willingness to find consensus.

Why did the governments and parliaments of the participating countries nevertheless opt for this model? Because the objective of monetary union was not just an economic policy project but also a peace project.

In any case, there was little doubt about the challenges posed by monetary union without political union.

Precisely what form monetary union would take therefore centred on the question of how monetary union could prove successful under the given circumstances.

One school of thought was that a European federal state with systems of transfer payments first had to be established – only then could monetary union follow.

This model was known as the "coronation theory": monetary union would be the "crowning" achievement of a preceding political union.

The other school of thought was that monetary union should come before political union. The political pressure arising from the requirements to maintain stability would then compel members to integrate further and take the steps needed towards political union.

This concept was called the "locomotive theory": monetary union would be the engine driving political integration.

The Delors report, published in 1989, ultimately recommended the establishment of economic and monetary union before political union.

It was on this basis that the Maastricht Treaty was signed in 1992. It set out a timetable and legal framework for the establishment of Economic and Monetary Union and comprised, amongst other things, the convergence criteria and the Protocol on the Statute of the European System of Central Banks and of the European Central Bank. The objective of price stability was thus enshrined, for example.

So monetary union was launched precisely as the post-war global order of two blocs collapsed.

The dissolution of the Soviet Union fundamentally changed Europe's geo-strategic position. It was now a matter of working together to create a new order in Europe and to support the states and societies of the former Eastern Bloc as they transitioned into democratic market economies.

Two European policy projects have thus been running side by side since the early 1990s: the economic integration of western Europe to promote peace, and the political integration of central and eastern Europe.

From a present-day perspective, the older project to achieve western European integration has become less important politically. At any rate, the vision of a "United States of Europe" as a single jurisdiction for which monetary union has been established no longer sets the tone for the European political agenda.

Contrary to the locomotive theory, the euro did not accelerate the establishment of political union to the extent that had previously been expected. Instead, historical events have steered European integration in a different direction.

In view of this, it is all the more remarkable how stable the euro and monetary union have so far been overall despite the crises they have faced. But this has been anything but a given. And that is something that we need to keep telling ourselves, especially with regard to the – as always – uncertain challenges that lie ahead.

4 Institutional reforms in the euro area

It is impossible to know for certain whether the roof of a house has been properly laid and can withstand a storm until a storm comes.

Monetary union, too, was launched during the fair-weather period of the "Great Moderation". But then came a storm in the form of a financial and sovereign debt crisis, which ruthlessly exposed the cracks in the institutional structure for all to see.

If a storm were to damage your roof, you would work as quickly as possible to do a temporary fix so that rain could not penetrate the interior. But then you would consider how to prevent similar damage from occurring in the future.

In the euro area, too, policymakers initially went for makeshift stabilisation measures before institutional reforms were rolled out. With regard to the latter, the permanent European Stability Mechanism and the banking union are the main measures that have made monetary union more resilient to crises.

The banking union mainly consists of two initiatives: first, the Single Supervisory Mechanism, and second, the Single Resolution Mechanism. The latter governs how to deal with failing banks. There is also a Single Resolution Fund designed to ensure that taxpayers are spared in the event of a bank failure.

Progress has stalled somewhat in other areas of reform that are "under construction". One example of a key project where we should be much further along is the capital markets union. I see this as a building block that is vital to the success of a stable monetary union. And that is why I am determined that we see it through.

It simply makes no sense for 20 countries to have a single currency but still have fragmented capital markets.

Integrating capital markets also contributes to financial stability. This is because it allows financial transactions to be spread more broadly – enterprises can find funding sources across national borders, and investors have many more investment opportunities. Furthermore, it strengthens private risk-sharing through the expansion of equity financing. That will also increase resilience in stormier weather.

Does it make sense for 20 countries to have a single currency but not a single fiscal policy? Opinions differ on this.

The fact is, of course, that the Member States are not prepared to further restrict, let alone give up, their fiscal sovereignty.

It is therefore all the more important for the stability of the single currency that government finances are sound – and that the common fiscal rules are taken seriously, complied with and enforced.

As we all know, the controversy surrounding these rules is a perennial topic in European politics.

However, for rules to have a binding effect, they need to be as clear as possible. By contrast, exceptions and room for discretion are problematic.

We at the Bundesbank therefore see the European Commission's reform proposal as a missed opportunity to strengthen the rules. The Commission wants to replace general medium-term budgetary objectives with country-specific, negotiable targets.

This is unlikely to make the rules simpler, more transparent or more effective.

Member States now have a significantly higher level of debt in relation to economic output than at the start of monetary union. And this doesn't even include the collective borrowing by the EU agreed in 2020.

At that time, the "NextGenerationEU" programme was adopted to mitigate the consequences of the pandemic and make Europe greener, more digital and more resilient. This multi-year transfer and loan programme has a volume of €750 billion and is financed by EU bonds.

This is a departure from the principle that the EU should not borrow money to cover expenditure. It was an exception that was understandable in the emergency situation at the time, but given the current level of integration it should remain a one-off exception.

One noteworthy positive aspect is that EU Member States showed solidarity during the pandemic. Europe is always strong when everyone works together and focuses on the common ground.

Close cooperation will continue to be important in the future, too, and will allow us to overcome future challenges as well.

5 Challenges for Europe and the euro

The coronavirus pandemic was an unexpected challenge, even though a pandemic had long been predicted by experts.

Before 2022, most of us also considered the war in Ukraine to be an unlikely scenario.

This teaches us that Europe must have the necessary resilience to act even in unforeseen situations.

But there are also developments that we can anticipate; challenges that we can prepare for. I'm thinking here, in particular, of the three Ds – often referred to as megatrends – of decarbonisation, digitalisation and demographic change.

But I'm also thinking of trade policy conflicts, which will presumably continue to be a matter of concern going forward. For an exporting country such as Germany, in particular, a reduction in international economic interconnectedness – in other words, deglobalisation; a fourth "D", so to speak – would be devastating. And last but not least, I'm thinking of where European politics goes from here.

In the final quarter of my speech I would therefore like to outline the impact of these challenges on Europe, on monetary union and on the Eurosystem.

5.1 Decarbonisation

The first challenge is decarbonisation – that is, the transition towards climate neutrality. In order to meet the Paris climate goals, the EU is aiming to achieve net zero emissions by 2050. This concerns all of us, and many of us are rightly thinking about how we can reduce our own carbon emissions, for example when we want to heat our homes or get from A to B. The economy is also affected.

The necessary transformation requires substantial financial resources, which must, by and large, be raised privately. The capital markets union would be very helpful in this regard. With an integrated green capital market, more funds could be mobilised and invested sensibly.

The Eurosystem, too, is supporting the green transition by ensuring greater transparency and taking account of climate risks.

In view of the Eurosystem's primary objective of maintaining price stability, it is crucial that climate-related financial risks are not neglected. In this respect, I think it makes sense for the corporate bonds that we currently hold for monetary policy reasons to also be aligned in terms of their climate risks.

However, it would be wrong to invest permanently in green securities if doing so is not warranted in monetary policy terms. And neither can we set interest rates with the aim of supporting climate-friendly investment. Creating favourable financing conditions for socially desirable investment is the task of other government institutions, especially promotional banks.

The most valuable contribution that monetary policy can make to climate policy is price stability. This is because inflation impairs the steering effect of prices in general and thus also of carbon prices in particular. The latter, though, remain the most efficient instrument of climate policy.

5.2 Digitalisation

Digitalisation is the second megatrend that will have an enormous impact on the European economic and financial system.

I don't have to explain to anyone here at KIT that this should be seen as an opportunity and not a threat.

Digitalisation promises to boost productivity and thus welfare. However, in order to fully exploit the potential of digitalisation, there needs to be an attractive framework. This includes well-developed digital infrastructure and innovation-friendly regulation.

There are several areas where the EU must take action in this context. It can advance the European digital economy for the benefit of the public, for example by setting clear rules for the use of data and AI systems or by completing the digital single market. And through competition policy, it must ensure that start-ups can continue to exist alongside the tech giants in future.

Digitalisation is also evident when it comes to making payments. Whether using a smartphone or smartwatch, or making a contactless card payment, digital payments are becoming increasingly popular.

Around two-thirds of spending in Germany is already cashless today – and among younger people this figure is as much as around three-quarters. The share of cashless payments has grown rapidly, not least during the coronavirus pandemic. Six years ago, just under half of all retail sales were still paid for using banknotes and coins.[1]

With the world becoming increasingly digital, and the same being true of payments, it is only logical for the central bank to also develop a digital offering for its money. The digital euro would give people the ability to pay electronically as well using central bank-issued money. And they would be able to do so across the whole of Europe!

I therefore believe that its introduction is a logical step – as a complement to cash. However, it will take a few years before we will be able to load our virtual wallets with the first digital euros.

5.3 Demographic change

The third trend that will be shaping Europe for decades to come is demographic change.

With life expectancy rising and birth rates low, the population is growing older and older. This is pushing up the old-age dependency ratio – the proportion of over 65s to those aged 15 to 64. For every 100 people of working age there are just under 35 in the older bracket at the moment. In the middle of this century, that figure will stand at over 50.

This will also have profound economic repercussions: spending on healthcare and long-term care will increase – as will the need for workers in those areas.

At the same time, the labour market is contending with an ever-shrinking workforce.

Let's consider Germany: there has been a mounting shortage of skilled labour for some years now. And that's despite the fact that the number of persons available in the labour market has recently been rising by almost 200,000 per year. However, come 2025, it will start falling by 80,000 per year, and this is going to aggravate the problem.

The shortage of skilled workers is therefore set to increasingly act as a curb on growth.

There are ways to go about countering this trend to at least some degree: higher female labour force participation, longer working lives and immigration.

While the first two factors are influenced more by national parameters, the EU has a greater influence on labour migration. It's a case of making Europe more attractive to skilled workers.

Labour shortage can also have an impact on the Eurosystem's monetary policy, might I add. This is because it gives employees greater bargaining power when it comes to wage negotiations.

If this were to give rise to additional inflationary pressures, monetary policy would have to respond.

5.4 International trade

Something else which would have an impact on monetary policy is if labour shortages were exacerbated by production being shifted to Europe. This would, after all, ultimately drive prices up.

Fortunately, no megatrend towards deglobalisation has emerged as yet. However, the advantages of the international division of labour are increasingly slipping into the background where international economic relations are concerned. And where global trade as a share of economic output was once steadily growing, this has given way to a kind of sideways movement since the financial crisis.

One of the key drivers of this development has been protectionist efforts. These are manifesting themselves in a significant increase in trade restrictions. Such measures are often intended to insulate domestic sectors. Ultimately, though, trade disputes are detrimental to all parties involved.

This does not mean, of course, that policymakers should leave globalisation's losers out in the cold. Rather, instead of standing in the way of structural change itself, policymakers should do a better job of cushioning the social hardship that it brings.

When it comes to trade policy, the EU has exclusive jurisdiction, and with that comes huge responsibility. Going forward, it should keep working to ensure trade is as free as possible.

Pandemic-related supply chain disruptions and Russia's war of aggression have now highlighted the risks entailed by unilateral dependencies. And, in light of that, it makes sense for the EU to want to reduce dependencies of that kind.

From an economic perspective, it would be a good idea to encourage and fortify free trade with a view to achieving more diversified supply chains. At any rate, it would be a grave error to forego the benefits of the international division of labour.

6 Conclusion

Ladies and gentlemen,

Europe is facing major challenges. Together, we can tackle and overcome those tasks. Of that I am in no doubt.

Gone are the days when Europe could be planned out on the drawing board. Nobody subscribes to the notion that political union must necessarily follow from monetary union anymore.

Instead, a variable geometry concept has taken root: depending on their interests, Member States choose to participate in joint projects – or they choose not to. And that is basically how monetary union works now too.

The European Union has not always had it easy over the past 25 years. Populist movements, with their brand identity partly built around criticism of European integration, are thriving in many Member States.

The European sovereign debt crisis was an important factor in this. Then came the Brexit campaign in the United Kingdom from 2016 onwards.

But another effect of Brexit and all of its ramifications is that critics of Europe and the euro routinely pipe down the closer they come to political responsibility.

This goes to show, amongst other things, just how much weight the euro and monetary union carry in Europe and in the context of European cooperation – whether you are for or against them.

The ongoing deepening of European cooperation remains on the political agenda – and rightly so. The objective of an "ever closer union" among the peoples of Europe, as referred to in Article 1 of the Treaty on European Union, holds to this day.

In political terms there's a strategic benefit to this for us here in Europe – just think of the major geopolitical conflicts around the world. And it's also a good thing for that pioneering project – European monetary union.

Monetary union has so far worked well overall, but its long-term success hinges on continued support from policymakers. We need to set up our institutions so that they are flexible and have the capacity to act.

Hans-Dietrich Genscher once said: Our future is Europe – we have no other.

As a committed European and ardent advocate of European integration, I would like to add to that: amidst all the difficulties and challenges associated with European integration, a united Europe is a historic achievement and one which we should deeply cherish. We need to keep working to refine it, adapting it to meet the new demands being made of it.

I would like to express my heartfelt thanks for the bestowal of the Heinrich Hertz Guest Professorship. I am incredibly honoured.

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[1] Bundesbank payment behaviour study 2021, tables 5.2.2 and A. 5.2.1, Payment behaviour in Germany in 2021 (bundesbank.de