

Joachim Nagel: Back to the roots - central banks and financial stability

Welcome address by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the event "The Bundesbank's Financial Stability Review at 20: challenges of yesterday, today and tomorrow", Frankfurt am Main, 6 November 2025.

* * *

Check against delivery

1 Introduction

Mr Theurer, ladies and gentlemen, it is a great pleasure and honour to welcome you today on this very special occasion: the Bundesbank's Financial Stability Review is celebrating its 20th anniversary!

We have an exciting afternoon ahead of us, with two high-calibre discussion panels. A warm welcome, too, to all our participants. I am delighted that you are here today to join in with the discussions and celebrations.

Without giving too much away at this early stage, I'd like to sketch a brief outline of the two panels. Our first round table will be moderated by my fellow Executive Board member Michael Theurer. Together, we'll look back at 20 years of the Financial Stability Review.

The second round table will be led by Gaston Gelos, who joins us from the Bank for International Settlements (BIS). He'll shift our focus forwards, exploring risks and challenges to financial stability now and in the years to come.

I would like to use my time at the podium to trace a broader arc, examining how financial stability's importance for central banks has evolved over time.

2 Central banks and financial stability

Given that the Bundesbank's Financial Stability Review is "only" 20 years old, it might be tempting to think that the topic of financial stability has only recently become relevant to central banks. But the opposite is true: financial stability has been an important part of central banking from the outset, even if its significance has varied over the course of the years.

In the middle of the 19th century, the Bank of England began to use its rediscounting facility to provide the financial system with a limited amount of liquidity in crisis situations.¹ These interventions inspired the then editor-in-chief of "The Economist" Walter Bagehot to pen his famous work "Lombard Street".

In his book, Bagehot recommended that the central bank should systematically intervene in the event of bank runs and liquidity shortages so as to preserve trust in the financial system and prevent a collapse. These recommendations are now known as the lender-of-last-resort principle.²

The US Federal Reserve System was also founded, in 1913, as a direct response to repeated banking panics.³ So we can see that the link between central banks and the objective of financial stability is a very long-standing one.

Midway through the 20th century, central banks began to increasingly pivot their focus towards safeguarding price stability and promoting growth and employment.⁴ Financial stability receded further and further into the background—not least because bank runs became a rarity.⁵ But this phase was not destined to last.

On the heels of deregulation and liberalisation of the financial system in the 1980s came the financial crises and turmoil of the 1990s and early 2000s. The Tequila Crisis in Mexico, the Asian crisis, the collapse of the Long-Term Capital Management hedge fund (LTCM for short), and the implosion of the dot-com bubble were striking demonstrations of how vulnerable the international financial system had become. And how quickly financial stability can be forfeited again.

Partly in response to this, central banks around the world started paying more attention to analysing and monitoring risks to financial stability once more. The introduction of financial stability reviews was a significant milestone.

The Bank of England was an international pioneer, publishing its debut Financial Stability Review back in 1996.⁶ The Bundesbank published its first Financial Stability Review in 2005.⁷ Analyses on the topic had already featured in its Monthly Report in the two years running up to that.

One of my predecessors, Professor Axel Weber, did an excellent job of summing up just how important the matter of financial stability had become: Financial stability is of crucial importance not only for monetary stability but also as a topic in its own right. Functional shortcomings in the financial system, especially owing to instabilities, can cause considerable economic costs.

For the first time, the Bundesbank set out exactly what it meant by financial stability, defining it as the financial system's ability to perform its key macroeconomic functions well, including in stress situations and during periods of structural adjustment.⁸ That definition, in a slightly tweaked form, stands to this day.⁹ From then on, the Financial Stability Reviews served as an early warning system for the public and as a platform for analysing risks.

And at the international level, the Bank for International Settlements, too, was especially vocal, using its annual reports and academic studies to warn emphatically of the

dangers of excessive lending, the formation of bubbles and systemic risks.¹⁰ However, amid market euphoria and confidence in the financial sector's ability to self-regulate, these warnings often went unheeded.¹¹

The consequences soon became apparent: the global financial crisis of 2007-08 confronted central banks and the international financial system with unexpected challenges. The speed and scale of the crisis went beyond anything that had been feared. The highly interconnected nature of financial markets triggered chain reactions that led to systemic failure of historic proportions.

In Germany, applications for stabilisation assistance totalled €231 billion, one institution was taken over by the Financial Market Stabilisation Fund (SoFFin), and resolution agencies were set up.¹² Gross domestic product fell by almost 6% in 2009.

The global financial crisis becomes the catalyst for a fundamental re-anchoring of financial stability at the institutional level. In May 2009, the Bundesbank establishes a dedicated Directorate General Financial Stability. But, to start with, communicating information to the public through its Financial Stability Review, in the form of analyses and warnings, is the only device in the Bundesbank's toolkit.

That changes on 1 January 2013: the Financial Stability Act enters into force and, for the first time ever, bestows upon the Bundesbank—together with the Federal Financial Supervisory Authority (BaFin) and the Federal Ministry of Finance—an official mandate for financial stability.

Since then, the three institutions have come together regularly in the shape of the German Financial Stability Committee (FSC). The Bundesbank is charged, especially, with monitoring and analysing developments that have a bearing on financial stability. The FSC can make recommendations for the introduction of macroprudential instruments and activation of macroprudential measures.

But it's not just in Germany that things have changed—the global financial crisis has led to far-reaching institutional adjustments at the international level, too. The Financial Stability Board was created in 2009 to strengthen international cooperation and the monitoring of systemic risks. The European Systemic Risk Board (ESRB) set to work monitoring the European financial system and limiting systemic risk in 2010.

The new Basel III regulatory framework introduced higher and better-quality capital requirements for banks. Furthermore, macroprudential instruments were developed to make the financial system more resilient.

Nowadays, financial stability is an integral part of central banks' mandate. Macroprudential oversight, the analysis of systemic risks and policy consultation are now firmly anchored in the institutional framework.

The financial stability reviews produced by the Bundesbank and other central banks have become a well-established tool—for policymakers, the financial sector and the general public. Central banks have—in the best sense of the phrase—gone back to their roots.

3 Closing remarks

At the same time, it's important to remember that the work is never done. The challenges to financial stability are constantly changing. The latest reports coming out of the United States are a clear illustration of that.

September saw both a US auto financing provider and a manufacturer of car parts file for bankruptcy protection. In October, two US regional banks ran into difficulties due to fraud.¹³ We are following what's happening very closely—of that you can be sure!

New risks could also arise as a result of the structural change unfolding in the real economy and the financial system, the rapid development of artificial intelligence, and ongoing geopolitical developments. It is precisely these topics that we will be discussing in our second panel.

But, first, we want to take a closer look at how the Bundesbank's Financial Stability Review came to be and the challenges facing us today. I'll now hand over to my Executive Board colleague, Michael Theurer.

I look forward to some exciting debates and fresh ideas. Thank you very much for listening.

¹ See Anson, M., D. Bholat, M. Kang and R. Thomas (2017), The Bank of England as lender of last resort: new historical evidence from daily transactional data, Bank of England Staff Working Paper No 691.

² See Bordo, M. (1990), The Lender of Last Resort: Alternative Views and Historical Experience, Federal Reserve Bank of Richmond, Economic Review, January /February 1990.

³ See Johnson, R. (2010), Historical Beginnings... The Federal Reserve.

⁴ See Bordo, M. (2007), A Brief History of Central Banks, Federal Reserve Bank of Cleveland, Economic Commentary.

⁵ See Reinhart, C. and K. Rogoff (2008), This Time is Different: A Panoramic View of Eight Centuries of Financial Crises, NBER Working Paper No 13882 and Laeven, L. and F. Valencia (2013), Systemic Banking Crises Database, IMF Economic Review, Vol. 61(2), pp. 225-270.

⁶ Bank of England (1996), Financial Stability Review, Issue One, Autumn 1996.

⁷ Deutsche Bundesbank (2005), [Financial Stability Review](#), November 2005, p. 6

⁸ See Deutsche Bundesbank (2005), op. cit.

⁹ As stated in this year's Financial Stability Review, we understand financial stability as a state in which the financial system is able to perform its economic functions at all times. See Deutsche Bundesbank (2025), [Financial Stability Review](#), November 2025.

¹⁰ See, for example, Bank for International Settlements (2007), 77th Annual Report 2006/07 and Borio, C. and W. White (2004), Whither monetary and financial stability? The implications of evolving policy regimes, BIS Working Papers No 147.

¹¹ See Rajan, R. (2005), Has Financial Development Made the World Riskier?, NBER Working Paper No 11728.

¹² See Deutsche Bundesbank (2010), [Annual Report 2009](#), p. 91.

¹³ The auto lender Tricolor applied for bankruptcy protection on 10 September 2025, and the car parts manufacturer First Brands applied for bankruptcy protection on 29 September 2025. On 16 October 2025, US regional banks Western Alliance and Zions reported having been the victim of fraudulent borrowing.