

# Joachim Nagel: Holding one's own in a changed world

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the "Frankfurter Impulse" event, hosted by FPS Law, Frankfurt am Main, 24 November 2025.

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*Check against delivery*

## 1 Introduction

Ladies and gentlemen,

Right off the bat, I have a question for you about Goethe's Faust—and I'm thinking of both parts. Do you think Mephistopheles came across more as a lawyer or an economist?

The famous pact between Faust and the devil is evocative of the signing of a legal contract. But on the other hand, in part two of the tragedy Mephistopheles acts as an economic player in the money creation scene: he creates paper money to remedy the emperor's lack of currency. That ultimately leads to inflation. If you ask an AI chatbot, say, the answer isn't totally clear. Mephistopheles has both legal and economic aspects. He embodies both roles.

The fact is that there are many interfaces between law and economics. And some universities even unite the two disciplines under the umbrella of one faculty. Another thing our specialisms probably share is being considered "dry as dust". And our jargon is often comprehensible only to insiders. Impenetrable walls of paragraphs or models that seem like closed books.

By contrast, I hope that my brief speech today will be entertaining and easily understood even by non-experts. I would like to give an overview of sorts of current issues—and, in keeping with the title of the event, provide "Frankfurt impulses". Let me begin with geopolitical developments; followed by a look first at Germany and then at Europe. To finish, I would like to say a few words about central banks and monetary policy.

## 2 Changed geopolitical conditions

The COVID-19 pandemic, the more politicised Chinese economy and the war in Ukraine have already shown that it is important to reduce economic dependencies. Geoeconomic considerations are increasingly playing a role. The change of administration in the United States has once again altered the landscape enormously.

US tariff policy is calling into question the multilateral trading system more than ever. Universal rules have to make way for deals on trade policy. And the stronger party prevails—though who that actually is sometimes only becomes apparent over time. International cooperation is suffering.

After multiple decades of advancing global integration, the global economy is at risk of becoming fragmented. That is very regrettable and also costly to the economy. You see, international trade and the division of labour increase productivity and welfare.

We should not be dramatising current developments, nor should we be downplaying them. The United States is a key player. If it pulls back from international cooperation, that will leave a mark. US imports make up around 13% of global trade, for example. Trade restrictions have increased worldwide. Although new trade agreements have also been made at the same time, this does not compensate for the damage.

The fact that the United States is somewhat cutting itself off economically with its protectionist measures is one thing. But the fact that the changed geopolitical conditions are accompanied by much greater uncertainty is also putting additional strain on global economic activity. Germany and Europe are therefore facing economic pressures and challenges.

The higher tariffs have so far had less of an impact on the global economy than was feared at times, but their negative consequences are likely to increase. The United States accounts for a share of around one-fifth of German and European exports to countries outside the European Union. Exchange rate developments are another complicating factor for domestic export business.<sup>1</sup>

The euro has appreciated by more than 12% against the US dollar since the beginning of the year. Compared with the currencies of 18 trading partners, euro appreciation came to just over 5.5%. In my opinion, the current valuation level of the euro is not concerning. After all, the dollar exchange rate, which is currently sitting at around €1.16, is not far from its historical average. However, the appreciation of the euro has led to a further deterioration in the price competitiveness of the German economy and the euro area. According to Bundesbank calculations, it is no longer favourable, but rather neutral.<sup>2</sup>

How should we respond to all this? Europe and Germany need to position themselves in the fragmented world as well as they can. We must be careful not to get crushed in the geostrategic conflict between the United States and China. We should work more closely with countries that are also interested in open, rules-based trade. The agreement between Mercosur and the European Union is a good example. However, new free trade agreements should be negotiated much faster than the Mercosur agreement, which took more than 25 years. Above all, it is high time we became more competitive and more independent. I would now like to move on to the situation and outlook in Germany.

### **3 Strengthening Germany's economic strength in the long term**

The German economy stagnated in the third quarter. It will probably grow only slightly overall this year. It is likely that growth will be more pronounced next year. However, the likely increase in government spending is a major factor in this.

For our economy to grow stronger again in the long term, it must become more productive, regain lost competitiveness and generally make better use of its opportunities. This means creating a favourable environment for investment and innovation, for example by reducing bureaucracy and easing regulation.

We must not fall behind, especially with regard to future technologies such as artificial intelligence. And it is extremely important to restructure the energy sector in a way that is both climate-friendly and economically sound, and to make the energy sector and energy markets in Europe more interlinked. Lower energy prices would benefit household finances and make Germany a cheaper location for businesses. More integrated energy markets can reduce price fluctuations.

Furthermore, Germany also needs to have enough labour to sustain higher economic growth. Younger working-age people are steadily declining in both absolute numbers and as a share of the population. At the same time, life expectancy keeps rising. Therefore it is virtually inevitable that we will have to keep working for longer. This also means making early retirement less attractive. First, because otherwise the burden on the shoulders of the young generations will get heavier and heavier. Second, because early retirement exacerbates the shortage of skilled workers. For the same reason, labour market-oriented immigration will become even more important than it already is.

In short: higher government spending for more public investment is one thing. However, this needs to be accompanied by reforms that sustainably strengthen Germany as a business location. The same goes for Europe.

## 4 Europe should move closer together

At the European level, I see no problem in terms of analysis, but in terms of implementation. It is important to press ahead decisively with structural reforms and European integration. To this end, the struggle for national advantages must take a back seat. Global challenges mean that compromise—in the sense of mutual give-and-take—is becoming more important than ever. Ultimately, everyone benefits from closer cooperation.

The need to build up common defence capabilities in Europe is particularly acute. And "Europe" here means not only the European Union, but also partners such as Norway or the United Kingdom. Europe should also move closer together in pursuit of economic strength and sovereignty.

First, there are still considerable obstacles in our internal market. This is particularly true in the services sector. And we do not have a common energy market. Around 450 million people are an immense economic area whose potential can be better harnessed.

The reports by Mario Draghi<sup>3</sup> and Enrico Letta<sup>4</sup> have been available for more than a year now. They contain plenty of good proposals. But there is a lack of implementation. The European single market is a success story that we should definitely continue—as also shown by a recent Bundesbank study.<sup>5</sup>

Second, financial integration in Europe must progress. We have been talking about the capital markets union for more than ten years now. The objective of a savings and investments union has now evolved. But it is still not being implemented.

What does it need to achieve? The main objective is to channel more of European households' high savings into productive investment and innovative enterprises. Households are likely to benefit from this, both through higher earnings and lower risks. Businesses would benefit from a larger and more diverse capital supply and a reduction in capital costs. At the same time, the savings and investments union would make Europe more independent in terms of financing sources, including and especially for young, innovative businesses.

Third, a European central bank digital currency could counteract the remaining fragmentation within Europe and make us more independent when it comes to payment systems. Two forms have been proposed: one for large-value payments that only banks can use; and one for everyone to use as a complement to cash, transferring its benefits to the digital payment world. This digital euro would be accessible to all citizens free of charge and would be accepted throughout the euro area. It would be based on European infrastructure. This would make us more independent of US payment service providers such as Visa, Mastercard or PayPal.

The introduction of the digital euro will depend on the adoption of the relevant legal basis in Brussels. Provided that the legislation enters into force in 2026, the Eurosystem should be able to introduce the digital euro in 2029.<sup>6</sup> European central bank digital currency would, not least, also be a sensible response to US dollar-denominated stablecoins. This is because it would strengthen the attractiveness of the euro.

The emergence of stablecoins is a recent and, to some extent, worrying development. These are digital tokens from private issuers that aim to maintain a stable value and are backed by assets such as government bonds for this purpose. Stablecoins, which currently mean almost exclusively US dollar-denominated stablecoins, could become more widespread: This is because they offer advantages over existing solutions in certain fields of application, such as payments between firms or between different currency areas. And also because US regulation aims to safeguard or further expand the dominance of the US dollar through stablecoins.

In plain terms: Europe's sovereignty in payments would be at risk if stablecoins issued by US companies were used extensively here. European central bank digital currency alone would certainly not prevent this from happening. This makes euro-pegged stablecoins from European issuers all the more important. At present, these are still few and far between.

## 5 Central bank independence is a precious asset

Another current development is giving pause for thought. Namely how the independence of the US Federal Reserve is under pressure. Likewise, the lawyers among you are probably watching with particular concern wherever the independence of the judiciary is at risk. Central bank independence is a major achievement. It's part of

the DNA of a successful, effective monetary policy. While public debates and differing opinions on the course of monetary policy are useful, there shouldn't be political interference.

A look back at history provides cautionary tales of what can happen if central banks do not act independently: The public loses confidence in monetary policy. There is turmoil in the financial market. Independence is an important prerequisite for us as central banks to be able to fulfil our mandate of ensuring price stability. Monetary policy should not, for example, be geared towards public finances, with key interest rates lowered more sharply than warranted by the objective of price stability.

Let me add that, in return for their independence, central banks should have a clearly defined mandate. However, this does not prevent them from taking a far-sighted approach to economic challenges. For example, we need to analyse and take into account the increasing risks posed by climate change. This is because they, too, are relevant for price and financial stability.

Before I conclude, you will probably want to hear me say something about European monetary policy. Euro area inflation has stabilised close to 2% in recent months. According to previous ECB staff projections, inflation is likely to be close to the 2% target over the medium term.

However, some aftereffects of the wave of inflation are still being felt. Take supermarket inflation, for example. For food, in particular, price increases were above average and remain persistent. The ECB recently wrote that to put a meal on the table, consumers are paying roughly a third more than before the pandemic.<sup>7</sup> At their regular trips to the supermarket, people perceive the increased cost of living particularly clearly. And their concerns about further price rises are reflected in survey results.<sup>8</sup> The Governing Council of the ECB is, of course, keeping a close eye on this and the continued strong services inflation.

We are in a good position and should continue to follow a data-dependent and flexible approach and take our decisions on a meeting-by-meeting basis. In December, we will have additional data, new projections for the next two years and also—for the first time—for 2028. We will then see more clearly whether the monetary policy stance remains appropriate.

## 6 Conclusion

I would like to conclude by noting that much of what seemed self-evident for a long time is no longer so. For example, how important it is to have credible, predictable, and sustainable policies that strive for international cooperation, not confrontation. Such policies also create the framework for economic success.

Europe must hold its own in this changed world. I have mentioned a few key factors for success: Increasing productivity and competitiveness. Promoting European sovereignty. To this end, working more closely together in Europe and implementing the necessary measures: First, deepening the single market. Second, finally making progress on the savings and investments union. Third, introducing European central bank digital currency.

What is also important is the quality and reliability of institutions, including an independent central bank, an independent judiciary and, of course, the preservation of our democracy. Professor Friedman, in the opening passage of your latest book, you note that the attack on our liberal democracy is the most serious it has been since the 1930s. A free Europe could be history in a few years' time. However, the end of your book gives us hope that democracy will evolve. You point out that we may well stumble along the way. In my view, stumbling from time to time is certainly preferable to not making any progress at all.

I would now like to hand over the floor and thank you for your attention.

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<sup>1</sup> [Deutsche Bundesbank, Financial Markets, August 2025](#), supplementary information in the Monthly Report: Measures of the appreciation of the euro in the monetary policy debate.

<sup>2</sup> [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.

<sup>3</sup> Draghi, M. (2024), [The Draghi report on EU competitiveness](#).

<sup>4</sup> Letta, E. (2024), [Much more than a Market](#).

<sup>5</sup> Nagengast, A., F. Rios-Avila and Y. Yotov, [The European single market and intra-EU trade: An assessment with heterogeneity-robust difference-in-differences methods](#) | [Deutsche Bundesbank](#), Discussion Paper 26/2025.

<sup>6</sup> European Central Bank (2025), [Eurosystem moving to next phase of digital euro project](#).

<sup>7</sup> European Central Bank (2025), [When groceries bite: the role of food prices for inflation in the euro area](#).

<sup>8</sup> R+V Insurance (2025), [R+V-Studie: Die Deutschen haben mehr Angst vor der Inflation als vor Trump](#) (available in German only).