Burkhard Balz: Future-proofing Europe's financial system - innovation, stability, and sovereignty

Keynote speech by Mr Burkhard Balz, Member of the Executive Board of the Deutsche Bundesbank, at the10th Annual FinTech and Regulation Conference, Brussels, 3 February 2026.

* * *

Check against delivery

1 Introduction

Ladies and gentlemen,

Thank you very much for your invitation and giving me the opportunity to speak to you here today.

Brussels is much more than just a convenient location for a fintech conference–it is where Europe turns debates into rules, and where rules shape markets. In digital finance, regulation and infrastructure are evolving almost as quickly as the technology itself. Two forces are shaping the future of finance: technological innovation, which brings efficiency but also new risks; and geopolitical change, which raises questions of sovereignty.

A recent cover story in "Der Spiegel"–a leading German news magazine–describes our situation as "dangerously dependent."[1] We do not need to be unnecessarily alarmist, but the underlying point deserves attention: dependencies can quietly accumulate until they become strategically relevant. We saw this very clearly with our reliance on Russian gas during the conflict with Ukraine–a strategic vulnerability with far-reaching consequences. Similar dependencies exist in the financial sector, where digital systems form the backbone of our economy.

The choices we make now–on regulation, market infrastructure, and forms of digital money–will shape Europe's resilience and room for manoeuvre for years to come. So, how do we future-proof Europe's financial system–to foster innovation, safeguard stability, and strengthen sovereignty? These are the three goals that I would like to discuss today, focusing on three key building blocks: crypto-assets and stablecoins, wholesale central bank digital currency, and the digital euro.

2 Crypto-assets and stablecoins: innovation, guardrails, and strategic implications

Allow me to start with the broader crypto-asset ecosystem, including stablecoins as the main bridge to the traditional financial system. Central banks must take a clear-eyed and proportionate view here. Much of the crypto market remains volatile, with rapid shifts in sentiment. At present, the systemic risks are contained because the links to the conventional financial system are limited. However, what matters is the way we are heading: as crypto activities expand–through trading platforms, custody services, and new connections to traditional assets–risks can migrate into the regulated system on a larger scale. As crypto-based products increasingly resemble financial services, familiar issues such as governance, transparency, and operational resilience become more relevant.

In Europe, the Markets in Crypto-Assets Regulation (MiCAR) represents a major milestone. It creates a harmonised framework across the EU, supports responsible innovation, and strengthens safeguards for stability and investor protection. It reduces fragmentation, increases legal clarity, and makes it harder for risks to hide in regulatory blind spots. But MiCAR must be a living framework. Innovation does not stop once legislation has been adopted. Ongoing monitoring and targeted refinement are essential. This is not a weakness–it is the hallmark of credible regulation in fast-moving markets.

Stablecoins deserve particular attention. Designed to maintain a stable value relative to an official currency or reference asset, these are well suited for the purposes of settlement and payment purposes. In tokenised environments, they can enable 24/7 settlement and programmable payment flows, reducing frictions and speeding up processes. "Stable", however is not a guarantee. Depending on their design and governance, stablecoins can create liquidity risks, operational risks, as well as risks of runs–especially if confidence weakens and redemptions accelerate. The more stablecoins are embedded in payment and platform ecosystems, the more relevant these risks become for financial stability.

For Europe, there is an additional strategic dimension. The stablecoin market is dominated by tokens denominated in US dollars, whilst euro-denominated stablecoins still play just a marginal role. If dollar-based stablecoins continue to expand in Europe, this could, over time, foster a form of re-dollarisation in digital finance. Such an outcome would not be in our interest. We do not want Europe to close itself off–but we must avoid creating new dependencies. Europe needs to be strong, and for that, we need a strong euro. We need conditions that allow euro-denominated stablecoins to develop and gain market relevance, where appropriate. By facilitating viable European alternatives, we can help to ensure that euro-based stablecoins become a competitive alternative alongside US dollar stablecoins.

This is why Europe's regulatory approach matters. Under MiCAR, stablecoin issuance and services are subject to authorisation and supervisory requirements, with standards for governance, transparency, and reserve management. At the same time, we should refine the rules in a pragmatic way when MiCAR's safeguards are challenged by market structures. This includes, for example, "multi-issuance" models, in which a stablecoin is issued by multiple entities. Such models should be considered non-compliant unless their specific risks are properly addressed. A constructive European approach should therefore do two things: support clearly regulated solutions where they add value and remain firm on the monetary anchor. Private innovation can thrive–but stability requires a trustworthy public foundation.

And this leads us to a key question in tokenised finance: what is the settlement asset? Do markets rely on private tokens? Or do we preserve settlement in central bank money?

3 Wholesale CBDC: Pontes and Appia – future-proofing the backbone

This is where wholesale central bank digital currency–or wCBDC–comes in. As capital markets become more tokenised–with securities, collateral, and deposits on distributed ledger technology (DLT)–the crucial question is how to settle the cash leg in a secure and final way. Private tokens, including stablecoins, may be more efficient in some cases. For large-value payments and financial market settlement, however, central bank money remains the benchmark for security, finality, and reduced settlement risk. Our objective is clear: wholesale payments and settlement should continue to be anchored in central bank money, even with the emergence of tokenised assets and new infrastructures. This is also in line with market expectations.

In the Eurosystem, we are pursuing this through two initiatives: Pontes and Appia. Pontes is our short-term, pragmatic track. It builds bridges between DLT-based market platforms and the Eurosystem's existing TARGET Services, enabling tokenised transactions for settling delivery-versus-payment in central bank money. A pilot phase for market testing and feedback is set to launch in the second half of this year. Appia is the longer-term, strategic track. It explores the potential design of future wholesale settlement architecture if tokenised markets become mainstream–scalable, cross-border, and highly automated. The aim is not technology for technology's sake, but an architecture that combines efficiency, trust, and resilience.

The common thread here is simple: Europe should not have to choose between innovation and security. Tokenisation can bring efficiency and new functionalities, but the settlement layer should not default to private instruments simply because public solutions show up too late. Ultimately, maintaining wholesale settlement in central bank money is not only about efficiency and innovation–it is essential for Europe's strategic autonomy and financial sovereignty.

Once we have addressed the backbone, we can then turn to the public-facing aspect of CBDC: the digital euro.

4 The digital euro: European money in the digital age

At its core, the digital euro is about preserving access to central bank money in a digital economy. Cash will remain available and essential. However, as payment habits shift, the monetary anchor–the foundation of trust in our currency–should not be limited to the physical world.

There are three motivating factors here. First, the monetary anchor. In everyday digital payments, people mainly use commercial bank money. This works well, but it is important that individuals and businesses can also rely on public money in digital form. Second, a more integrated European payments landscape. Despite our common currency, Europe's cashless retail payments market remains fragmented. Many solutions work well at the national level, but there is no truly pan-European digital payment instrument that is accepted universally. The digital euro can provide a common foundation, strengthening integration and competition, whilst enabling private providers to innovate. Third, resilience and sovereignty. A significant share of digital payments in Europe depends on non-European infrastructure. Global solutions offer convenience, but resilience requires diversification and redundancy. The digital euro would provide a European public option, reducing dependencies and strengthening Europe's capacity to act. In short, the digital euro can be best understood as a European public payment solution for the digital age. It complements cash, supports integration, and strengthens resilience, while leaving space for private innovation and competition.

Encouragingly, the digital euro has moved beyond a technical concept–it is now a political project for more European sovereignty with tangible progress. The Eurosystem has completed the preparation phase and is moving towards ensuring technical readiness. Towards the end of this month, the ECB will launch a call for expressions of interest to participate in selected piloting activities. This will give market participants and the Eurosystem the opportunity to gain insights and contribute directly to the technical, operational, and user readiness of the digital euro. Moreover, we will continue to engage with stakeholders in different ways to pave the way for a thriving ecosystem based on the digital euro infrastructure. We want the private sector to play an active role here. Private innovations such as wero are more than welcome to complement the digital euro as the basic public offering.

On the legislative side, momentum is strong: in December 2025, EU Member States agreed on the Council's negotiating position. This is not only an important step towards legal certainty but also sends a strong signal of unity among Member States. We welcome the agreement, as it maintains crucial elements from the Commission proposal while also providing notable improvements, for example regarding resilience and access to mobile devices. It is an important impetus for the discussions in the European Parliament and may even facilitate compromises between the different parties. However, given the sheer number of amendments to the rapporteur's position, finding a balanced compromise will not be easy. For us, it is crucial to preserve the digital euro's strong legal tender status and to establish a reliable basis for ensuring European autonomy in the payments sector.

Davos and recent geopolitics have made it abundantly clear: the days when Europe could outsource its sovereignty are over. European legislators need to focus on what is at stake and take action. We therefore hope that the European Parliament will advance its own position, with the aim to move efficiently through the next steps in 2026. If EU legislation is adopted in 2026 and implementation stays on track, the Eurosystem aims to be ready for first issuance in 2029. This means that people could start paying with the digital euro from that point on.

5 Conclusion

Ladies and gentlemen,

Let me conclude by bringing these different strands together. Europe's task is neither to choose between innovation and stability, nor to retreat from global markets. Our goal is to shape innovation so that it strengthens the foundations of trust.

With MiCAR, Europe has set a clear framework for crypto-assets and stablecoins: supporting innovation whilst ensuring robust supervision. We must stay open to new solutions, but remain realistic about risks and be ready to refine rules where needed. On central bank digital currency, the Eurosystem's approach is cohesive.

Pontes and Appia aim to ensure secure settlement in central bank money for tokenised markets. The digital euro will preserve access to public money for all–as a European payment solution that complements private solutions and strengthens resilience.

In short: future-proofing Europe's financial system means innovating quickly, regulating smartly, and keeping the anchor strong–so that Europe remains open, competitive, and resilient in the digital age.

Thank you very much.

---

[1] DER SPIEGEL (2026): "Gefährlich abhängig: Militär, Banken, Internet–Warum ohne Amerika nichts geht.", Nr. 4/2026 (16.01.2026).