

Joachim Nagel: Central banking in an age of geoeconomic fragmentation and global uncertainty

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the 157th Baden-Badener Unternehmer Gespräche, Baden-Baden, 1 March 2026.

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1 Introduction

Ladies and gentlemen,

Two hundred and fifty years ago this month, the "Inquiry into the Nature and Causes of the Wealth of Nations" was published. In this groundbreaking work, Adam Smith stresses the importance of the division of labour to increase productivity.

He cites the famous example of a pin factory where ten persons, by specialising in different tasks, could produce 48,000 pins a day. Each worker alone could have produced, at the very most, a few pins per day.

Smith advocated the division of labour both between individuals and between nations. The idea that all the countries involved win through specialisation and trade has been exceptionally fruitful.

In 1817, David Ricardo developed his theory of "comparative advantage" as opposed to "absolute advantage".

Absolute advantage means a country can make a good with fewer resources or at lower cost than another country. Comparative advantage means it sacrifices less of other goods when producing that good. Opportunity costs matter, not absolute costs.

Ricardo believed that countries should specialise in the production of goods they can make at lower relative costs – and trade with others.

He gave the example of wine and cloth in England and Portugal: Assume Portugal produces both wine and cloth more efficiently than England. Assume also that Portugal has a greater efficiency advantage in wine production. Then, both countries are better off if Portugal specialises in wine production and England in the production of cloth.

By focusing on individual strengths, they can produce more efficiently. They need not be the most efficient producers of those goods. And even if one country is more efficient at producing everything, trade can still benefit all parties.

Now let's leap forward to the nineteen nineties.

Following the fall of the Berlin Wall and China's accession to the World Trade Organization, far more countries started participating in international trade. In particular,

emerging market economies were playing an increasing role in the international division of labour.

This process of strong globalisation has increased global competition and given consumers in advanced economies access to cheaper goods and a greater range of products.

Where do we stand today, in times of geopolitical conflicts? To answer that, we have to talk about geoeconomic fragmentation and uncertainty.

What are the implications of the new global environment? I will focus on those for the economy, inflation, financial stability and monetary policy. Finally, I will discuss how Europe can meet the current challenges and why we need a European central bank digital currency.

2 Geoeconomic fragmentation and global uncertainty

The International Monetary Fund defines geoeconomic fragmentation broadly, namely as a policy-driven reversal of integration that is often guided by strategic considerations.¹

It generally makes no sense to forego the advantages of an international division of labour. Such policies reduce global prosperity.

However, the COVID-19 pandemic, a stronger political influence on the Chinese economy and Russia's war in Ukraine have shown that it is important to reduce economic dependencies.

The old axiom still holds: Don't put all your eggs in one basket. Diversification reduces risks, which also applies to suppliers. Homeshoring, nearshoring or friendshoring may therefore appear useful when realigning supply chains.²

Ladies and gentlemen,

You are probably familiar with such considerations in your business: How can robust supply chains be designed without sacrificing too many efficiency gains?

Since the new US administration took over, the global environment has again changed massively. Geoeconomic considerations as well as protectionist measures are playing an increasingly important role. The global trade order has been shaken by the tectonic shift in US trade policy.

International cooperation is suffering. In connection with this, geoeconomic risks as well as uncertainty are very high.³

Given the difficult circumstances around the globe, let me turn to how the Bundesbank sees the economic situation in Germany.

3 Economy, inflation and financial stability

We forecast that the German economy will grow by about 0.6% this year and by an even stronger 1.3% next year (on a calendar-adjusted basis). Unadjusted growth rates will be somewhat higher at 0.9% for 2026 and 1.4% for 2027 due to more working days.

This is good news, even though such growth rates are a far cry from rates observed a decade ago: in 2016 and 2017, GDP grew at 2.2% and 2.7%, respectively.

The recovery is being driven largely by additional government spending on defence and infrastructure. These are estimated to contribute 1.3 percentage points to economic growth by 2028.

Private demand is also likely to pick up momentum slowly. The euro area economy has proven more resilient than expected over the past year – despite the appreciation of the euro.

In December, the Eurosystem staff revised its projections a bit upwards, with the euro area economy forecasted to expand by 1.2% this year and by 1.4% in 2027 (calendar-adjusted).

Inflation developments are favourable. They remain consistent with our medium-term target of 2%. According to the December projections for the euro area, there will be a temporary slight undershooting of the 2% mark this year and next.

For 2028, the Eurosystem staff expects a point landing at 2%. This outlook is, of course, also highly uncertain.

As if this trite saying needed confirmation, ten days ago the US Supreme Court struck down most of the tariffs imposed by the US President. In addition, trade policy conflicts and persistent geopolitical tensions have increased the risks to financial stability.

In Germany, structural challenges are weighing on the economy, too, and could impair financial stability. Risks from German banks' lending business are on the rise. Although banks' capitalisation is sound overall, their resilience should not be overestimated in the current environment.

The January discussions on Greenland at Davos have highlighted the potential for escalation. High valuations, low risk premia and potential amplification effects make international financial markets particularly vulnerable to setbacks. Increasing geopolitical tensions and fiscal vulnerabilities in some countries could abruptly erode market participants' confidence.

Concerning exchange rate developments, doubts regarding the safe-haven status of the US dollar have risen. For the time being, the dollar weakness is set to remain, as international investors' loss in confidence could well persist.

The appreciation of the euro against the US dollar (and other currencies) since March of last year matters for both growth and inflation developments in the euro area. This, in turn, is relevant for our monetary policy – the next point in my speech.

4 Implications for monetary policy

The inflation picture in the euro area is favourable overall, as I already mentioned.

In monetary policy, our flexible, data-driven approach has proven its worth. In other words, we decide from meeting to meeting in response to new data without pre-committing to a given further course.

With the current level of key interest rates, we are in a good position. At the same time, we stand ready to adjust our monetary policy stance in any direction whenever it becomes necessary.

We have done well to keep options open. That was – and remains – the right course, especially because uncertainty remains high. In particular, the trade policy environment has been highly volatile since President Trump took office.

After the Supreme Court declared country-specific tariffs illegal, President Trump raised tariffs worldwide by 10 percentage points. Compared to the previous situation, the US effective tariff rate for Germany will decline by about 4 percentage points.

The effects on growth and inflation of this change in tariff regime are likely to remain limited. But who knows whether tariffs will be in place after 150 days, and if so, at what level? And in addition to risks regarding tariffs, geopolitical risks have increased.

Our monetary policy strategy allows us to cope with such an uncertain environment.

5 How can Europe meet the current challenges?

Overall, the big question is: How can Europe hold its own in the changed world?

We should defend our values.

For example, we should stick to the wisdom of Adam Smith and David Ricardo by upholding rules-based international trade as best we can. The latest agreements between the European Union and Mercosur as well as India are very welcome. And I also welcome that the EU-Mercosur Agreement will be provisionally applied.

Above all, it is high time for Europe to become more independent, especially in our defence capabilities and critical industries.

Take for instance satellite technology: At present, there is no European satellite internet service that matches the scale and performance of Starlink.

The EU's project IRIS2 (Infrastructure for Resilience, Interconnectivity and Security by Satellite) is scheduled to be operational by 2030.

Regarding navigation, Europe has its own global navigation satellite system, Galileo. It is an equivalent or even better alternative to GPS (Global Positioning System), which is owned by the US government. Nevertheless, GPS remains dominant in NATO defence, although the EU is in the process of increasingly integrating Galileo.

With the Copernicus component of the European Union's space programme, we already have strong Earth observation capabilities. We have thus made notable

improvements, but further progress is still urgently needed to reduce European dependencies in satellite technology.

In pursuit of economic strength and sovereignty, Europe needs to move closer together.

There are still considerable obstacles in our internal market. According to ECB estimates, the frictions to intra-EU trade may amount to a tariff equivalent of up to 67% for goods and 95% for services.⁴

Tariff equivalent means the higher costs of trading with other EU countries compared with trading domestically. The authors interpret these percentages as upper bounds for the trade frictions that can be reduced through policy action.

This is one of several studies which show crystal-clearly that enhanced integration of the internal market is urgently needed to realise its full potential. And that is not only true for goods and services but also for the European financial market.

The good thing is: We not only know the problem, we also know the solution. The Savings and Investment Union must become a reality. Its main objective is to better connect European savings with business investment across the EU.

This promises higher returns for households as well as a larger and more diverse supply of capital for companies. Especially young, innovative, small and growing firms would thus gain better access to venture capital, equity and market-based debt.

Consequently, the Savings and Investment Union would strengthen productivity, growth and Europe's autonomy in terms of financing sources.

6 The need for European CBDC

Ladies and gentlemen,

My last point relates to payments.

Here, too, Europe should become more independent.

Issuing a central bank digital currency (CBDC) could move financial integration forward. As things currently stand, cash is the only true European means of payment that is accessible and accepted across the entire currency area.

Non-European providers are at the heart of our digital payment systems. Large US companies dominate the market. There are now only five national card systems in place; everywhere else in the euro area, payment systems depend on Visa or Mastercard.

This dependence is expensive for us – through high merchant fees and the outflow of sensitive payment data, for example. At the same time, it potentially exposes us to political pressure and reduces Europe's scope for acting autonomously.

Digital payment services are not a "nice-to-have", but rather basic necessities, similar to gas and clean water. It is high time for a digital European payment solution.

As a digital twin to cash, the digital euro could be used by all citizens for electronic payments in shops, online or from person to person free of charge.

A two-pillar approach makes sense: The digital euro as a basic public offering in European payments and innovative private solutions that can use its infrastructure and can be offered for a fee.

The implementation of the digital euro should not overburden market players or crowd out private-sector solutions. In my view, complementarity of public and private money is the best way to create resilience in Europe.

I hope that the legislative process at the European level will be completed in 2026 so that the digital euro can become a reality by 2029.

In addition to the retail variant of central bank digital currency – the digital euro – the Eurosystem is also working on a wholesale variant. It is intended to settle large-value critical payments between financial institutions in central bank money based on new technologies.

Financial market participants are very interested in this. In response, the Eurosystem has announced that it will provide a pilot solution by the end of 2026.⁵ This will enable DLT platforms to be connected to our TARGET Services.

The digital euro and the wholesale variant of central bank digital currency are important elements for a resilient and sovereign European payment landscape.

As an aside, a very topical issue in this context is stablecoins.⁶

These are crypto-assets designed to maintain a stable value relative to currencies such as the US dollar or the euro and are backed by assets such as government bonds for this purpose. At present, 99% of the stablecoin market is pegged to the US dollar.

Stablecoins have so far played a limited role, but their volume is growing – not least because regulation in the USA aims to strengthen the dominance of the US dollar and demand for US government bonds through stablecoins. Widespread use of US dollar-denominated stablecoins in Europe could jeopardise our sovereignty in payments and financial stability.

7 Conclusion

Ladies and gentlemen,

In the year 1776, not only the "Wealth of Nations" was published. Also, James Watt's steam engine, recognised as the first efficient steam engine, was introduced commercially.⁷

250 years later, we are seeing not just a backlash against the international division of labour and the benefits of international trade.

We are also witnessing the AI revolution, which might become as influential as the steam engine was in its time.

Let us take the wisdom of the past and the technological opportunities of the present to do what is in our hands for thriving societies in a strong Europe that continues to uphold international cooperation, but is ready to stand on its own two feet.

Thank you for your attention.

¹ Aiyar, S. et al. (2003), [Goeconomic Fragmentation and the Future of Multilateralism](#), IMF Staff Discussion Notes 2003/001.

² Deutsche Bundesbank, [Economic developments in emerging market economies: old problems and new challenges](#), Monthly Report, July 2023, p. 62.

³ ECB and ESRB, [Financial stability risks from goeconomic fragmentation](#), Joint Report, January 2026, p. 25: "Indicators of global uncertainty, especially those capturing trade uncertainty, have spiked, driven by the significant shifts in US foreign and domestic policies and their potential implications for the international economic and financial system. [-] Most of these indicators were at or near multi-decade highs."

⁴ Bernasconi, R. et al., [What is the untapped potential of the EU Single Market?](#), ECB Economic Bulletin Issue 8, 2025.

⁵ ECB (2025), [ECB commits to distributed ledger technology settlement plans with dual-track strategy](#), Deutsche Bundesbank, [Digital money: options for large-value payments in central bank money | Bundesbank publications](#), Monthly Report, September 2025.

⁶ Deutsche Bundesbank (2025), supplementary information in the Financial Stability Review: How stablecoins affect financial stability, [Stability situation in the German financial system | Bundesbank publications](#).

⁷ Bollmann, R., [Wie Adam Smith die Welt verändert hat | FAZ](#), Frankfurter Allgemeine Sonntagszeitung, 4.1.2026; Wikipedia, [Watt steam engine](#).