

# Joachim Nagel: Stable and strong in turbulent times – Europe's responses to global challenges

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, to the Lions Club Frankfurt-Am Leonhardsbrunn, Frankfurt am Main, 4 May 2026.

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## 1 Introduction

Ladies and gentlemen,

Thank you very much for your invitation and kind welcome. It gives me great pleasure to be with you today.

We meet on the eve of Europe Day of the Council of Europe. This is followed by Europe Day of the European Union on 9 May, which is when the anniversary of the Schuman Declaration is celebrated. The latter marks the beginning of a new era of peaceful cooperation in Europe. It thus laid the foundations for today's European Union. Both days commemorate European integration. They are a reminder of two milestones in the creation of a Europe that has learnt from the experience of history: After the devastation and suffering of the two world wars, stock was placed in the power of law, cooperation and common institutions. Today, living in peace, freedom and prosperity is the only life we know. This is largely thanks to European integration. It is good that the two Europe Days remind us of this – especially in times like these.

We are experiencing a world of change: rivalries are growing, the geopolitical climate is harsher, the situation is constantly changing abruptly. In the current decade alone, we have already faced four major upheavals: the pandemic, with its consequences for global supply chains; Russia's war of aggression against Ukraine with the subsequent energy crisis in Europe; the volatile US trade policy with its tariff twists and turns; and now the conflict in the Middle East, which is pushing up oil and gas prices once again.

All these upheavals have left their mark: old certainties have given way to new realities. This applies first and foremost to our security, but also to our trade partnerships and our energy supply. In this difficult environment, it is important to safeguard the achievements of European integration. Peace, freedom and prosperity are not a given. We have achieved them together in Europe – and we must safeguard them together.

How the world around changes is something we can only influence to a limited extent. But it is up to us to make Europe stable enough and strong enough to cope with the new global situation. What does stable and strong mean? There are many aspects to this. In my speech, I will confine myself to those that are also relevant to us as a central bank.

It will be about the single market and how it can make Europe even stronger. In my view, the savings and investments union and the digital euro play an important role in

this. But, as a central banker, it is price stability, of course, that is top of the list. Let us therefore start by looking at inflation and monetary policy in the euro area.

## 2 Price developments and monetary policy in the euro area

Until recently, this part of my speeches tended to elicit boredom: inflation hovered around the 2% mark and the outlook promised the same. In short, price stability prevailed in the euro area. Monetary policy had achieved its objective. This boredom was something I could happily live with.

But then the Iran war began and changed the situation. The economic consequences will probably keep us occupied for quite some time to come. On the world market, oil and gas prices increased dramatically for a time. And prices are still fluctuating far above pre-war levels. This has a double negative impact: it cools economic activity and heats up inflation.

In consumer prices, we notice the higher crude oil prices first-hand through fuel and heating oil. This is why the inflation rate in the euro area has risen sharply, initially to 2.6% in March and, according to initial estimates, to 3.0% in April. This is the highest rate since September 2023. At the same time, we can see worldwide that disruptions in the energy markets are affecting supply and value chains. Energy-intensive products are also becoming more expensive and scarcer. And as the prices of various fuels rise, so too do transport costs.

Monetary policy cannot prevent the abrupt rise in energy prices. It is unable to keep shipping routes clear or to repair production and port facilities. However, monetary policy can influence how inflation will develop in the medium term.

At the moment, there are still many uncertainties in this regard. How long will the Strait of Hormuz remain blocked? How much damage has been done to the energy infrastructure in the region? How quickly can this be resolved? When will the usual production volumes be reached again? When will the disrupted supply chains normalise? Finally, when will oil and gas prices fall markedly again – and to what level?

One thing is clear: The longer the conflict persists, the greater the risk that inflation will remain elevated if monetary policymakers fail to act. That is why we are looking very closely at two factors. First, how strongly are the high energy commodity prices feeding into consumer prices and wage negotiations? And to what extent will domestic price and wage pressures subsequently amplify each other? Second, what inflation rate do financial market professionals – but also firms and households – expect in the medium term? Both factors are important for the future path of inflation. And monetary policy can have an impact on both.

After the outbreak of the war in Ukraine, we saw how an increase in energy commodity prices led to a broad wave of inflation. This experience is still fresh. It could therefore influence how firms and households respond to this new price shock. And indeed, we see that members of the public now expect significantly higher inflation: From February to March, medium-term inflation expectations of euro area households rose from an average of 2.5% to 3.0%.<sup>1</sup>

But the current situation is very different from the one in 2021 and 2022. When Russia's war against Ukraine began, inflation was already high and the deposit rate was negative. When the war in Iran began, inflation stood at around 2%, and key interest rates were broadly neutral. The starting position is therefore different today than it was then.

It is against this backdrop that the ECB Governing Council met last week. We concluded that it is currently worth waiting to gain a clearer view of developments. We therefore held key interest rates steady. One should not confuse the Governing Council's vigilant, wait-and-see approach with hesitancy. We are aware of the risks to price stability and are ready to act at any time.

The Governing Council will meet in June for its next monetary policy meeting. We will then know more about how the situation in the Middle East is developing. We will also have new projections. If the inflation outlook in these does not improve markedly, this speaks in favour of an interest rate hike.

The Governing Council has shown that it acts decisively when necessary: It raised the key interest rates ten times between July 2022 and September 2023, then lowered them eight times.

I expect the fog to clear somewhat in June and we will see more clearly where the journey is headed. Our objective is clear: We want the inflation rate to stabilise again at 2% over the medium term. This is what we base our monetary policy stance on.

### **3 Challenges in volatile times – and Europe's responses**

But no matter how important an appropriate monetary policy response to acute price shocks is, it is only part of the response to the current challenges. In a world of persistent uncertainty, it is not just a matter of responding to individual events, but of making our economic policy strategies more robust and adaptable overall. Attention is therefore increasingly turning to structural changes underlying the more volatile environment, especially to geoeconomic fragmentation. I would now like to shed some light on the challenges this poses – and how Europe and the Eurosystem can respond to them.

The International Monetary Fund defines geoeconomic fragmentation as a policy-driven reversal of economic integration, often guided by strategic considerations.<sup>2</sup> Geoeconomic fragmentation affects trade in goods and services, as well as financial flows and migration.

As an economy strongly integrated into global trade and value chains, Europe is particularly affected by this trend. In recent years, this fragmentation has contributed to weaker economic growth and declining competitiveness. Against this backdrop, we must act decisively to give the European economy more momentum again.

It is not just about safeguarding or expanding our global market shares, but also, above all, about better exploiting the huge potential of the European single market. The much-

cited reports from Enrico Letta and Mario Draghi call for a significant simplification of regulations in the European Union in order to make the European economy more competitive.<sup>3</sup>

The problem here is not so much the existence of rules and regulations as their high degree of complexity and rigidity. In practice, a medium-sized company wishing to operate in the EU is often faced not with a single market, but rather a patchwork of different national rules, reporting requirements and procedures.

The European Commission has already taken initiatives to simplify regulation in the European Union and to reduce administrative costs.<sup>4</sup> In March, the European Commission presented a legislative proposal for the introduction of a new 28th EU-wide regime in corporate law.<sup>5</sup> This is primarily intended to make it easier for young and innovative enterprises to operate in the EU single market and to improve opportunities for growth. This proposal now needs to be negotiated in Europe. In my view, it offers great potential to facilitate the founding and scaling of enterprises in the European single market.

In the area of financial market regulation, too, there is scope for simplification – without jeopardising financial stability in the process. The ECB Governing Council has launched a high-level working group to specifically address the issue of how to make prudential requirements in the euro area more efficient and less complex. I am a member of this group.

However, we need to do more than just simplify regulation and reduce bureaucracy in order to give the European economy more momentum. The repercussions of the war in the Middle East have shown us how urgent it is to gradually decrease the EU's dependence on imported energy. Here, it is key for us in Europe to undertake more joint work to expand the supply of renewable energy and better link European energy networks.

Other areas that will be crucial to success and in which we should become less dependent are defence and digitalisation, especially with regard to the development of AI. These challenges cannot be met using public resources alone. However, the public sector can improve the framework conditions so that the private sector can invest, develop solutions, and bring them to market. Nevertheless, private investment requires funding.

There is currently still room to expand the private financing of young, innovative enterprises in Europe, in particular. Especially in the case of equity financing, these enterprises in Europe have thus far seen much less interest amongst investors than those on the other side of the Atlantic. Europe's response to this challenge is the savings and investments union.

The European single market has existed for more than 30 years now – and yet there is still a considerable degree of economic fragmentation between the Member States. Progress towards integration is limited, especially in the European financial market. Effectively, we still have individual national financial markets. This is weighing on the European economy as a whole and is, above all, hampering the development of young and innovative enterprises, as it is difficult for them to obtain funding across borders.

We stand to gain a lot if we continue to push ahead with the integration of European capital markets. This is because Europe has a high amount of savings. And these could then be better used to strengthen innovation, productivity, and competitiveness across the European continent.

The European Union has already made important progress towards a savings and investments union. Some measures are already being implemented. Further specific proposals are on the table for consultation. For example, the Council of the European Union recently gave the green light for greater harmonisation of the rules for insolvency proceedings in the EU.<sup>6</sup> Additional steps towards removing barriers to cross-border securities trading, the use of new technologies such as distributed ledgers in the financial sector, as well as greater convergence and centralisation of the supervision of financial market infrastructures are currently being discussed at the EU level.<sup>7</sup>

In my view, it is crucial for Europe to make further progress on the savings and investments union within the foreseeable future. The work on this project should be accelerated. Against this background, I welcome the recent joint commitment by the European Council, the European Parliament, and the European Commission to adopt key elements for the EU single market by the end of 2027 at the latest. Many important projects – especially in the area of the savings and investments union – are even planned to be adopted by the end of this year.<sup>8</sup>

#### **4 The digital euro: a key project for sovereign European payments**

There are also critical dependencies in an area for which central banks bear responsibility. Ladies and gentlemen, you may be affected by this issue even tonight: namely, if you make a payment and you do not pay in cash.

At present, around two-thirds of all card payments in the euro area are settled via non-European systems. There are only five euro area countries in which European card systems play any noteworthy role at all. Germany, with its girocard system, is one of them.<sup>9</sup>

The trend towards digital payments continues to strengthen non-European market leaders such as Mastercard, Visa, and PayPal. This creates a dependence that can be as risky as those in the areas of defence or AI. This has already been felt by judges at the International Criminal Court in The Hague: following US sanctions, banks and payment service providers blocked their accounts and cards.

All of this underlines the need to take action: Europe cannot just sit in the passenger seat when it comes to payments. Europe must be at the wheel.

This is precisely where the digital euro comes into play. It is a key project to strengthen Europe's sovereignty in payments. It would be a secure, generally accepted digital means of payment, based on European infrastructure and under European control. The euro area central banks are working together on this. And the Bundesbank is part of the consortium that is implementing the project in detail.

The digital euro would be an additional electronic form of central bank money. The emphasis here is on "additional": it will complement cash, not replace it. Anyone who wants to pay in cash can continue to do so in the future. However, if you want to pay digitally, you will be able to do so with money from the central bank for the first time.

The digital euro will provide a digital payment solution that can be used throughout Europe. This may sound abstract at first. But the benefits for the general public are very real. The digital euro is planned to work at businesses, in online commerce, and for payments between individuals. And it will work seamlessly throughout the entire euro area.

Today, almost all of the options are stand-alone national solutions. Metaphorically speaking, Europe is a patchwork, and this patchwork still has a lot of gaps.

We are lacking a truly European digital payment option that works everywhere. Precisely this gap can be closed by the digital euro. It would not only be convenient. It would also represent an increase in resilience. And this increased resilience would not only be in regard to non-European providers: the digital euro is planned to be able to work offline, too. In a worst-case scenario, this means that you would be able to make payments even without access to power or the internet. This supports strategies aimed at reducing vulnerabilities in critical infrastructure.

I am aware that there is another aspect of the digital euro on many people's minds: What happens with my data? The digital euro has been developed from the outset with high standards of data protection. The Eurosystem will have no access to users' personal payment data. The state will therefore see neither what people buy nor where they shop. The planned offline functionality will achieve an even higher level of privacy, similar to that of cash. Personal transaction data will be known to only two persons: the payer and the payee.

And I would like to emphasise one more thing: the digital euro is not targeted against banks or private sector providers. Public and private solutions can complement each other. The digital euro could create a common European infrastructure on which private payment service providers can develop their own offerings.

All in all, the digital euro is much more than just a new app or a new payment method. It is about freedom of choice, privacy, and access to public money – including in the digital environment. And it is about strengthening efficiency, resilience, and strategic autonomy in European payments.

In order for the digital euro to become a reality, we must create a binding legal framework. This is where EU legislators come in. I am confident that, with regard to the legal side, everything will be signed and sealed by the end of the year. Once the legal basis has been established, the ECB Governing Council will make a definitive decision on whether the digital euro will actually be introduced. Everything could then be ready for a possible first issue in 2029.

## **5 Conclusion**

Ladies and gentlemen,

It is not my aim to talk until we get to Europe Day. So I will therefore draw to a close.

The coming days will remind us that European unification was a response to the devastation of two world wars. However, even after that, Europe has always been successful in finding appropriate answers to the prevailing challenges of the time. And it must do so again today, perhaps even more so than it has for a long time.

I am convinced that a stable and strong Europe is the best response that we can give. To this end, the Bundesbank, as part of the Eurosystem, is making its contribution by working to ensure stable money, supporting the savings and investments union, and pushing ahead with the digital euro.

I am now eager to hear how you see the current situation. I look forward to our discussion.

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<sup>1</sup> See ECB (2026), [Inflation perceptions and expectations](#), Chart 10.

<sup>2</sup> Aiyar, S. et al. (2003), [Goeconomic Fragmentation and the Future of Multilateralism](#), IMF Staff Discussion Notes 2003/001.

<sup>3</sup> Draghi, M. (2024), [The future of European competitiveness](#); Letta, E. (2024), [Much more than a market](#).

<sup>4</sup> [Simplification – European Commission](#)

<sup>5</sup> [EU Inc.: A new harmonised corporate legal regime – European Commission](#)

<sup>6</sup> Council of the European Union, [Council greenlights common EU rules for insolvency proceedings](#), press release of 30 March 2026.

<sup>7</sup> [Market integration and supervision package – Finance – European Commission](#).

<sup>8</sup> Council of the European Union, [European institutions agree roadmap to achieve 'One Europe, One Market' by end of 2027](#), press release of 24 April 2026.

<sup>9</sup> Deutsche Bundesbank (2025), [The payments ecosystem in transition: current developments in the German card market](#), Monthly Report, December 2025.