Joachim Nagel: New forms of money and the transmission of monetary policy

Welcome remarks by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the International Conference on Payments and Securities Settlement, hosted by the Deutsche Bundesbank and the Bank of Canada, Eltville am Rhein, 18 June 2026.

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1 Introduction

Ladies and gentlemen, a warm welcome to this year's International Conference on Payments and Securities Settlement. It is a great pleasure to be here with you today – in person.

I am delighted that the Bundesbank is again hosting this conference together with the Bank of Canada. Many thanks to the organisers for putting together such an excellent event. We can look forward to two days of exciting and thought-provoking presentations.

Tonight, we are inviting you to dinner at Kloster Eberbach – Eberbach Monastery. The film buffs among you may know that the monastery served as one of the filming locations for The Name of the Rose, based on Umberto Eco's novel and starring Sean Connery.

The conference venue here in Eltville can certainly hold its own as well. If you look out of the window, you will see the beautiful River Rhine – a place that has long captured the imagination of German thinkers and poets.

Heinrich Heine once wrote in his poem "The Loreley": Und ruhig fließt der Rhein – And calmly flows the Rhine. Part of the river's beauty lies in its calm, smooth flow.

The same is true for flows in our payment and settlement systems. They work best when they are barely noticeable – while enabling goods and services to flow through the economy.

Payment and settlement systems are not only operational infrastructure. They are also an integral part of the monetary system. Our current monetary system relies on the interplay between central bank money and private money. Many payments are made via bank deposits. Banks, in turn, use central bank money for final settlement.

In recent years, payments have seen a great deal of innovation. New forms of money emerged or are being developed – most notably central bank digital currencies (CBDCs), stablecoins and tokenised deposits.

If these new forms of money change how liquidity flows through banks and markets, they may also change how monetary policy affects inflation. To set the stage for this year's conference, I would like to share some thoughts on what these new types of money could mean for the transmission of monetary policy in the euro area.

2 Implications for monetary policy transmission

Let me begin by defining the instruments I will focus on.

A retail CBDC is a digital form of central bank money designed for everyday transactions. In the euro area, the digital euro would be issued by the Eurosystem as a digital form of central bank money.[1] It is intended to complement cash, not to replace it. The digital euro would be usable for transactions in all everyday payment situations, also offline. And it is designed with monetary policy considerations in mind.

By the way, a wholesale CBDC is primarily intended for the settlement of interbank transactions. Since wholesale CBDC has a less direct impact on spending decisions and inflation, I will focus here on retail CBDC.

Stablecoins are privately issued digital tokens that aim to maintain a stable value against a reference asset. This reference asset is usually a fiat currency – and currently, that means almost exclusively the US dollar. A stablecoin's value depends on several factors: the issuer's reserve assets, its redemption promise, its legal structure and market confidence.

Tokenised deposits are commercial bank deposits represented on a programmable or tokenised ledger. They remain liabilities of the issuing commercial banks and should be redeemable or transferable at par with ordinary bank deposits.

How widely are these new forms of money already used?

For now, they remain more a prospect than a reality in everyday payments. Work on the digital euro is still ongoing, but the project is already at an advanced stage. Under the current timeline, issuance is planned in 2029.

US dollar-denominated stablecoins have become significant in global crypto markets.[2] However, their use as a means of payment in the euro area is very limited, and the amount of euro-denominated stablecoins outstanding remains small. Banks are exploring tokenised deposits, mainly in wholesale settings.[3] But tokenised deposits are not yet used in everyday monetary transactions.

This means that, at present, these instruments have only a limited impact on monetary policy transmission, as their footprint is still modest. But their potential impact could grow if they become more widely used. That is why we need to analyse them now.

Before I turn to my analysis, let me briefly recall how monetary policy transmission works. The transmission process describes how changes in central banks' policy instruments affect macroeconomic variables, such as inflation and output growth.

Central bank actions are usually changes in monetary policy rates but can also include changes in liquidity conditions and asset purchases. Monetary policy transmission works through various channels and intermediate variables. The first step in many transmission channels is the effect of monetary policy on financial variables. [4] Think of money market rates, deposit rates, lending rates and the supply of credit. These changes then influence aggregate demand and, ultimately, inflation.

The new forms of money are most likely to affect monetary policy transmission channels that work through the banking sector – and in particular, through the bank lending channel. The bank lending channel describes how monetary policy affects the economy through banks' capacity and willingness to lend.[5]

It rests on two main premises:

First, banks cannot easily replace stable and low-cost deposit funding with other funding sources. If banks lose deposit funding, this can affect their capacity and willingness to grant loans. And if deposits become more mobile, banks may face higher or more volatile funding costs.

Second, some borrowers cannot easily substitute bank loans with other forms of finance. As a result, changes in banks' balance sheets and funding costs can affect the supply and cost of loans, and ultimately aggregate demand and inflation.

The key question is therefore: Do the new forms of money change the role of deposits in bank funding, the composition of the depositor base, or both? The exact answer is likely to differ across the forms of money and depend on their respective design.

Let's start with the least complicated case: tokenised deposits. Their implications on the monetary transmission mechanism should be limited, as they do not substantially change the characteristics of banks' deposit liabilities.

The potential impact of a central bank digital currency is much more far-reaching in principle. In practice, however, it depends on the specific design. The conversion of bank deposits into central bank digital currency could lead to a disintermediation of the banking sector.

To prevent large-scale substitution of bank deposits, the digital euro will include a holding limit. This will cap the amount of digital euro individuals can hold. Furthermore, the digital euro will be designed as a payment instrument, and in particular, will be non-interest-bearing. This will reduce the attractiveness of holding the digital euro instead of deposits as a store of value. Both the holding limit and the zero interest would limit the long-run effect on bank balance sheets.

The effect of stablecoins is harder to pin down. In general, a large-scale substitution of domestic currency with stablecoins denominated in a foreign currency could weaken monetary sovereignty and reduce the overall effectiveness of monetary policy. However, this risk appears very limited for the euro area, given the euro's stability, credibility and broad use.

For stablecoins pegged to the domestic currency, the impact depends mainly on two factors: how the issuer manages the reserve assets and where the funds used to buy the stablecoins come from.[6]

In Europe, the issuance of stablecoins is regulated by the Markets in Crypto-Assets Regulation, or MiCAR for short. Amongst other things, MiCAR requires European stablecoin issuers to hold a significant share of their reserve assets as deposits with credit institutions.[7]

If these reserve assets are held as bank deposits, the banking system would not necessarily lose deposits overall. However, the composition of deposits would change. Deposits would shift from many relatively stable private holders to fewer, and potentially more mobile, institutional holders. These wholesale deposits would have to be remunerated at rates close to market interest rates. They would also likely become more concentrated in larger banks.

If reserve assets are instead invested in other assets – for example government bonds – the balance-sheet implications depend on who sells the assets. If the stablecoin issuer buys them from non-banks, the deposits would again be mainly redistributed within the banking system. But if the issuer buys them from banks, banks' balance sheets would shrink.

The picture becomes even more complex if stablecoins are used as a substitute for cash. In that case, they could lengthen banks' balance sheets. This would happen if customers first deposited cash at a bank in order to buy stablecoins. The bank would credit them with a deposit and, in turn, would redeem the cash at the central bank for central bank reserves. So, depending on their design and reserve management, stablecoins could redistribute deposits within the banking system, reduce bank balance sheets, or, in some cases, even expand them.

What can we take away from this?

First, the main effects on the transmission of monetary policy are likely to run through the banking sector. New forms of money may affect the size and composition of bank deposits, and therefore banks' funding costs and their capacity to grant loans.

Second, the effects differ significantly across instruments. Tokenised deposits do not substantially change the characteristics of bank deposits and should therefore have a limited impact. A retail CBDC could have larger effects, but design choices such as holding limits will contain them. Stablecoins are the most complex case, because their impact depends on reserve management, regulation and adoption.

Third, these changes may alter the strength of monetary policy transmission. In most scenarios I have discussed, the transmission of monetary policy through the banking sector could become stronger. If deposits become more mobile and banks' balance sheets shrink, banks may compete more actively for funding and adjust lending more strongly in response to changes in policy rates. The main exception would be a case in which stablecoins substitute for cash.

Furthermore, beyond the effects on bank balance sheets discussed before, the new forms of money could also weaken monetary policy transmission in the long run. If they were to lead to a contraction in bank balance sheets and a reduction in their loan supply, credit provision could shift away from banks and towards other forms of financing. In that case, changes in banks' funding conditions would affect a smaller share of overall credit provision, reducing the force of the traditional bank lending channel.

At the same time, monetary policy transmission through other channels – for example, the asset price channel – could be strengthened. Taken together, the overall effect is undetermined.

Be this as it may, even if the new forms of money affect the strength of monetary policy transmission, they do not take away our ability to deliver price stability. They simply mean that we need to factor their potential impact into our monetary policy decisions.

3 Concluding remarks

Ladies and gentlemen, In Heinrich Heine's poem, the boatman came to grief because he was distracted by the song of the Loreley.

That is not the lesson we should draw from the emergence of new forms of money. Instead, we should keep our eyes open, understand the currents and steer with care.

New forms of money may affect bank funding, deposit competition and the pass-through of policy rates. They may therefore change the strength of the transmission of monetary policy.

However, they do not take away our ability to deliver price stability. They simply require us to calibrate our monetary policy instruments accordingly.

Ladies and gentlemen, let me once again welcome all of you to this conference. You are here to deepen our shared understanding of these currents. In that spirit, I wish you inspiring and insightful discussions.

Many thanks for your attention.

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[1] See Deutsche Bundesbank (2026), The digital euro: key elements and outlook, Monthly Report, March 2026.

[2] See Deutsche Bundesbank (2025), Financial Stability Review 2025.

[3] See European Banking Authority (2024), Report on Tokenised Deposits, December, as well as Bank for International Settlements (2026), Project Agorá – A shared programmable platform for wholesale cross-border payments.

[4] Inflation expectations are one important non-financial monetary policy transmission channel.

[5] The original formulation of the bank lending channel is found in Bernanke, B. and A. Blinder (1988), Credit, Money, and Aggregate Demand, American Economic Review, Vol. 78(2), pp. 435-439. A modern reformulation is found in Drechsler, I., A. Savov and P. Schnabl (2017), The Deposits Channel of Monetary Policy, The Quarterly Journal of Economics, Vol. 132(4), pp. 1819-1876.

[6] If stablecoins were to become interest-bearing, this could also influence their impact on monetary policy transmission.

[7] The share of deposits must exceed 30 % for all stablecoins and 60 % for significant stablecoins. See L_2023150EN.01004001.xml