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Dark Clouds over the Digital Euro

- After years of debate, European institutions now broadly agree that a Digital Euro could strengthen the EU's monetary sovereignty, but several key design features remain unresolved – and will ultimately determine whether the project succeeds.
- A Digital Euro with no interest on deposits and low holding limits would offer limited advantages over commercial bank deposits, significantly weakening its appeal for citizens and businesses.
- Proposals to restrict the Digital Euro's offline use only would further limit its functionality and diffusion, raising the risk that the EU's digital currency may become ineffective and fail to achieve its intended goals.

After a prolonged stalemate, the EU institutions involved in the Digital Euro project – the European Commission, the European Central Bank (ECB), the Council and the European Parliament – appear to have finally agreed that a digital currency, issued by the ECB, would strengthen European sovereignty and help preserve the Euro's global role. In recent weeks, the process leading to the creation of a Euro-unitarian Central Bank Digital Currency (CBDC) has gained new momentum, with the ECB declaring itself ready to launch the instrument during 2029.[1] However, despite this broad consensus in principle, doubts and diverging views remain regarding the characteristics of the Digital Euro's design. These unresolved elements will determine the project's ultimate success or failure.

The evolution of the project

Reconstructing the development of the Digital Euro requires examining two parallel tracks: the actions taken by the ECB and the work of the EU legislator (the European Parliament and the Council). According to the prevailing legal interpretation, digital money falls under Article 133 of the Treaty on the Functioning of the European Union (TFEU).[2] Consequently, the ECB can issue a

1 See the ECB's most recent report: *Progress on the Preparation Phase of a Digital Euro*, 30 October 2025, https://doi.org/10.2866/6934742.

2 "Without prejudice to the powers of the European Central Bank, the European Parliament

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CBDC only after the legislator adopts a regulation providing a legal framework. Without such legislation, the project cannot proceed.

The ECB began considering the possibility of issuing its own digital currency shortly after Christine Lagarde became president in 2019. Initial statements by members of the Executive Board were followed, in 2020, with the creation of a high-level task force to conduct preliminary studies on the potential positive and negative effects of such an instrument. In July 2021, the ECB launched a two-year investigation phase, during which it outlined the potential features of the Digital Euro through several progress reports and, in October 2023, it entered a preparation phase focusing on technical aspects. Only a few weeks ago, the ECB decided to move to the 'pilot phase', aiming to be ready to issue its digital currency before the end of the decade.

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While the ECB consistently advocated for a Digital Euro, the Parliament and Council – or more specifically, the Eurogroup – have taken a more cautious approach. From the outset, the legislature showed less enthusiasm for the project than the ECB, frequently highlighting the risks involved, especially regarding financial stability. This cautious stance was evident in statements from euro-area finance ministers and in comments by MEPs during ECB hearings.[3] Nevertheless, in June 2023, the Commission presented a draft regulation aimed at establishing the Digital Euro[4] – a proposal in which, as discussed below, the concerns about stability were carefully addressed.

Once submitted to Parliament and the Council, however, the initiative stalled due to the European Parliamentary elections and persistent scepticism among several political groups, such as the European People's Party (EPP), regarding the instrument's actual usefulness and its possible side effects (concerns amplified by intense lobbying from private actors).[5] In recent months, however, the process has resumed: the Commission – through the voice of its President – has reiterated the importance of the project,[6] the Eurogroup has endorsed the creation of the instrument and the parliamentary *rapporteur* for the file, Fernando Navarrete Rojas, finally presented his proposed amendments to the text drafted by the Commission.

It appears the legislator was compelled to act by repeated calls from ECB officials and – most likely – by the re-election of Donald Trump to the White House. His confrontational stance toward Europe underscored the EU's dependence on foreign providers, such as Visa and Mastercard, and highlighted the need for a genuinely European payment system.[7] At the same time, the increasingly pro-

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and the Council, acting in accordance with the ordinary legislative procedure, shall lay down the measures necessary for the use of the euro as the single currency. Such measures shall be adopted after consultation of the European Central Bank." See, TFEU - Article 133, 7 June 2016, https://eur-lex.europa.eu/eli/treaty/tfeu_2016/art_133/oj.

3 Allenbach-Ammann, János, "European Parliament Sceptical of Digital Euro", in *Euractiv*, 5 September 2023, https://www.euractiv.com/?p=1972070.

4 European Commission, *Proposal for a Regulation on the Establishment of the Digital Euro* (COM/2023/369), 28 June 2023, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52023PC0369.

5 On this topic, see Fanta, Alexander and Thomas Bollen, "European Banks Are Scared of the Digital Euro. Here's How Their Secret Lobbying Could Torpedo It", in *Follow the Money*, 29 February 2024, https://www.ftm.eu/articles/banks-fear-digital-euro-secret-lobby.

6 In this regard, it is telling that Ursula von der Leyen expressly endorsed the creation of the Digital Euro even during her 2025 State of the Union address. See, European Commission, *State of the Union 2025*, 10 September 2025, https://commission.europa.eu/node/42684_en.

7 See Bursi, Matteo, "Is the Digital Euro Back on Track?", in *IAI Commentaries*, No. 25|24 (April 2025), https://www.iai.it/en/node/19893.

crypto stance of the US[8] led various European policy-makers to see the Digital Euro as a means to safeguard EU monetary sovereignty, providing citizens and businesses with a dematerialised form of public money capable of competing with stablecoins and similar instruments.[9]

The debate on interest rates

›› Allowing interest on CBDC deposits would strengthen monetary policy transmission by enabling the ECB to influence citizens and businesses directly.

One of the earliest and most debated issues was whether Digital Euro deposits should bear interest. Allowing interest on CBDC deposits would strengthen monetary policy transmission by enabling the ECB to influence citizens and businesses directly, rather than relying on banks, whose intermediation can delay transmission effects by several months. Similarly, offering interest on deposits could prevent the formation of banking cartels by establishing a baseline rate below which banks could not remunerate their customers without risking losing funds to the Central Bank. However, these benefits come with a significant drawback: paying interest could trigger a major transfer of funds from private banks to the ECB, with potentially severe repercussions for financial stability and credit provision.

In its progress reports, the ECB refrained from taking an explicit position on this issue. The Commission, by contrast, addressed it directly in Article 16.8 of its proposed regulation, which prohibits interest on Digital Euro deposits. This decision was reportedly motivated by the aforementioned concerns regarding financial stability, while some jurists have also suggested – somewhat questionably – that remunerating a form of public money with legal tender status might violate the Treaties.[10]

The ECB criticised the Commission's decision in an opinion published in October 2023, arguing that the absence of interest on CBDC deposits would deprive the Digital Euro of the two positive aspects mentioned above, while also reducing the instrument's attractiveness for citizens.[11] Although it stated that it had no intention to remunerate Digital Euro deposits in the short term, the ECB argued that an absolute ban could undermine its ability to achieve price stability (the ECB's primary mandate), infringe on its independence and even prove legally ineffective.[12]

8 In particular, in recent months, the US has adopted a legislative framework on stablecoins, the Genius Act, which – by setting rules much more lenient than those designed by the European Union under the MiCA Regulation – aims to boost the diffusion of dollar-backed stablecoins. Refer to Rogers, Alex and Akila Quilio, "US Congress Passes Landmark Bill to Regulate Stablecoins", in *The Financial Times*, 17 July 2025, https://www.ft.com/content/4c41e6e8-374c-4b1a-ac7f-88c245fb18c8.

9 The nexus between cryptocurrencies and the Digital Euro has also been underlined by the ECB. See, Schaaf, Jürgen, "From Hype to Hazard: What Stablecoins Mean for Europe", in *The ECB Blog*, 28 July 2025, https://www.ecb.europa.eu/press/blog/date/2025/html/ecb.blog20250728~e6cb3cf8b5.en.html.

10 See, for example, Grunewald, Seraina et al., "Digital Euro and ECB Powers", in *Common Market Law Review*, Vol. 58, No. 4, (March 2021), p. 1029-1056, https://doi.org/10.54648/cola2021066.

11 ECB, *Opinion of 31 October 2023 on the Digital Euro* (CON/2023/34), 12 January 2024, http://data.europa.eu/eli/C/2024/669/oj.

12 It is interesting to note that the ECB, in its opinion, also rejects the legal interpretation according to which the Digital Euro could not bear interest: "Banknotes have never been remunerated, because it is impractical to do so, although such remuneration is neither theoretically impossible nor expressly prohibited by law." Ibid. point 10.7.

In the two years since the proposal was published, the EU legislator has so far ignored the ECB's observations, leaving the Commission's decision intact. Unless the ECB chooses to confront the other institutions, the Digital Euro will almost certainly bear no interest for its holders – a decision that would certainly diminish its attractiveness for citizens.

Holding limits and their consequences

» In recent years, various people/entities have argued that even without interest, CBDC accounts could attract substantial funds from commercial banks.

Concerns about financial stability also shape the debate over holding limits. In recent years, various people/entities have argued that even without interest, CBDC accounts could attract substantial funds from commercial banks, given the almost risk-free nature of a Central Bank account.[13] These concerns – deliberately amplified by some private actors – led the ECB to consider imposing limits on the amount individuals and enterprises may hold in Digital Euro accounts, with the aim of containing potential negative effects on financial stability. The Commission embraced this approach in its proposed Regulation.

With regard to merchants, in its progress reports, the ECB stated that it intends to set (at least in the short term) a holding limit of zero euros – in this sense, once these entities receive a payment, the funds would automatically be transferred from the Digital Euro deposit to a bank account.[14]

Instead, considering citizens, no institution has specified a numerical threshold, even if discussions increasingly refer to a figure of around 3,000 euros.[15] While such limits would certainly minimise financial stability risks, they would clearly prevent Digital Euro deposits from serving as a meaningful alternative to traditional bank accounts.

Furthermore, the Eurogroup recently reached an agreement on how such limits should be determined. According to the euro-area finance ministers, the Council would determine the maximum holding amount on the basis of an ECB recommendation.[16] If Parliament endorses this approach, the ECB would lose its ability to adjust holding limits autonomously – something that would inevitably hinder its ability to react quickly to market developments.

13 This risk has been largely emphasised, for example, by German banks. In this regard, consult Tenner, Tobias and Kathleen Altmann, "The German Banking Industry Committee's Key Requirements of the Digital Euro", in *Association of German Banks' Comments*, 23 January 2025, https://bankenverband.de/en/node/1890.

14 ECB, *Progress on the Investigation Phase of a Digital Euro - Third Report*, 24 April 2023, https://www.ecb.europa.eu/euro/digital_euro/progress/shared/pdf/ecb.degov230424_progress.en.pdf.

15 3,000 euros was also the maximum limit considered in a simulation carried out by the ECB – at the request of the European legislator – concerning the effects of the Digital Euro on financial stability. See ECB, *Technical Data on the Financial Stability Impact of the Digital Euro*, 10 October 2025, https://www.ecb.europa.eu/euro/digital_euro/timeline/profuse/shared/pdf/ecb.deprep251010_technical_annex_financial_stability_impact_digital_euro.en.pdf.

16 Eurogroup, *Main Results*, 19 September 2025, https://www.consilium.europa.eu/en/meetings/eurogroup/2025/09/19; ECB, *Launching the Digital Euro and Setting the Ceiling for the Holding Limit*, September 2025, https://www.consilium.europa.eu/media/c5mdaq5p/framework-for-launching-the-digital-euroand-setting-the-ceiling-for-the-holding-limit.pdf.

Parliamentary rapporteur Navarrete Rojas has proposed a series of amendments that, if adopted, would further restrict the euro-unitarian CBDC.

Navarrete's amendments

Navarrete Rojas has proposed a series of amendments that, if adopted, would further restrict the euro-unitarian CBDC. The parliamentary *rapporteur* has long questioned the merits of the Digital Euro. In his paper, *Do We Really Need the Digital Euro: A Solution to What Problem Exactly?*, he challenges its supposed benefits, highlighting various concerns not only about financial stability but also about privacy.[17] At the same time, although he acknowledges that Europeans should continue to rely on foreign payment systems, he argues that the EU should focus on developing private European solutions[18] rather than directly entering the market with an instrument like the Digital Euro. A suggestion that seems to align with the concept of an "open market economy with free competition" enshrined in Article 127 of the TFEU.

Unsurprisingly, Navarrete's amendments to the European Commission reflect his scepticism.[19] They confirm both the absence of interest and the need for holding limits, but go further envisioning a Digital Euro that would operate only offline, mirroring cash and ensuring transaction anonymity. The possibility of enabling the Digital Euro for online payments – which would make it a genuine alternative to the existing payment systems – would be activated only if no truly European private payment solutions emerged in the future, in a logic grounded in what could be termed as "horizontal subsidiarity".[20] Furthermore, his proposal significantly expands the category of merchants exempt from accepting Digital Euro payments[21] – a change that, if accepted by the legislator, would substantially weaken the legal tender status granted to the CBDC in the Commission's draft.

A dangerous downsizing?

When the ECB first began considering the launch of a CBDC several years ago, it was clear that the project would face numerous obstacles, including legitimate concerns about financial stability and strong private sector interests (like those of banks). However, the limitations now being proposed – and, in some cases, already agreed upon – go well beyond the reasonable caution or scepticism many observers expressed at the outset. The emerging design envisages a Digital Euro that pays no interest and allows only modest holding limits. Such an instrument would inevitably appear less attractive for citizens and merchants than both bank accounts and existing private payment solutions

17 Navarrete, Fernando, "Do We Really Need the Digital Euro: A Solution to What Problem Exactly?", in Fernando Fernández Méndez de Andés (ed.), *Rethinking the EU Consolidating EMU in a Fractured World. A Yearbook on the Euro 2025*, Madrid, Fundación Instituto Español de Analistas and Fundación ICO, 2025, p. 171-197, https://institutodeanalistas.com/wp-content/uploads/THE-EURO-IN-2025.pdf.

18 In his paper, Navarrete expressly mentions the European Payment Initiative (EPI), a project supported by 16 European financial entities. See the official website: https://epicompany.eu.

19 European Parliament, *Draft Report on the Proposal for a Regulation on the Establishment of the Digital Euro*, 3 November 2025, https://www.europarl.europa.eu/doceo/document/ECON-PR-778136_EN.pdf.

20 Moreover, according to Navarrete's proposal, the assessment of whether such private solutions exist should be carried out not by the ECB but by the European Commission. See Ibid., Amendment 14.

21 Refer to Amendment 118 of Navarrete's proposal.

The potential usefulness of CBDCs for citizens has long been debated, particularly in light of the limited success of previous initiatives.

such as PayPal or Satispay. If Navarrete's proposal – already criticised by the ECB[22] – were implemented, the Digital Euro appeal for European citizens would diminish even further.

The potential usefulness of CBDCs for citizens has long been debated, particularly in light of the limited success of previous initiatives.[23] According to various observers, while issuing a digital currency may offer clear public benefits, persuading individuals of the advantages of opening and actively using a Central Bank account is far more challenging.[24] A Digital Euro designed with the characteristics outlined above would only reinforce doubts about the initiative's future prospects. Moreover, given the significant private economic interests that a European CBDC would challenge, it is easy to imagine that limited uptake at launch would quickly prompt critics to question its cost – followed, sooner or later, by calls to abandon it.[25]

In this context, while the relaunch of the legislative process is welcome, one essential point must be stressed: the EU cannot simply issue a Digital Euro – whatever its characteristics may be. It must aim to issue a *successful* Digital Euro, capable of fulfilling the objectives that motivated its creation. If this aim is lost, the project risks losing its purpose altogether and becoming little more than a transient topic of debate among institutions and academics.

22 ECB, *The Digital Euro: A Collective Step forward for Europe. Introductory Statement by Piero Cipollone, Member of the Executive Board of the ECB, at the Committee on the Economic and Monetary Affairs of the European Parliament*, 17 November 2025, https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp251117_1~e62f13b4dd.en.html.

23 See, for example, Dowd, Kevin, "So Far, Central Bank Digital Currencies Have Failed", in *Economic Affairs*, Vol. 44, No. 2 (February 2024), p. 71-94, https://doi.org/10.1111/ecaf.12621.

24 See, among others, Angeloni, Ignazio, "Digital Euro: Catching Up and Browsing the Daisy", in *IEP@BU Policy Briefs*, No. 21 (July 2024), https://iep.unibocconi.eu/node/719.

25 Some private operators – often linked to the banking sector – have already sounded the alarm regarding the costs of the initiative, pointing to expenses far higher than those estimated by the EU institutions. See, for example, PwC, *Digital Euro Cost Study. From Concept to Implementation: Evaluating some Economic Implications of the Digital Euro for European Retail Banks*, June 2025, https://www.pwc.de/de/finanzdienstleistungen/pwc-digital-euro-cost-study-2025.pdf. This estimation was rejected by the ECB in a recent study. See ECB, *A View on Recent Assessments of Digital Euro Investment Costs for the Euro Area Banking Sector*, October 2025, https://www.ecb.europa.eu/euro/digital_euro/timeline/profuse/shared/pdf/ecb.deprep251010_a_view_on_recent_assessments_of_digital_euro_investment_costs_for_the_euro_area_banking_sector.en.pdf.

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