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› The Digital Euro at a Critical Juncture*

- After years of discussion, European institutions seem ready to adopt the Regulation on the digital euro. If the legislative initiative were to be approved by the end of this year, digital euro could become fully operational in 2029.
- Trump's re election acted as a "triggering factor" for the creation of the digital euro, highlighting the need for the EU to reduce its dependence on private payment solutions tied to third countries.
- Although the thawing of the legislative impasse should be welcomed, constraints imposed on the design of the instrument may limit the attractiveness of the digital currency for European citizens.

After years of debate, it now appears that the European Parliament and the Council of the European Union are close to reaching a common position on the proposed Regulation that should lead to the creation of the digital euro.[1] Therefore, it seems plausible that, by the end of this decade, the European Central Bank (ECB) will be able to complement banknotes and coins with its own Central Bank Digital Currency (CBDC), giving rise to a genuinely European digital payment infrastructure. Such an innovation can only be welcomed from the perspective of strengthening the economic and financial sovereignty of the EU and preserving the role of public money in an evolving economic landscape. However, in light of certain features of the designed instrument, doubts abound about the ambition of the project as well as the appeal that the digital euro may have to European citizens.

A multifaceted instrument

CBDCs are potentially multifaceted instruments: they can serve as a digitalised form of traditional money, a public payment infrastructure, an alternative to bank deposits and a means for conducting monetary policy. While the first two functions are regarded by most economic observers as almost intrinsic to the instrument, the latter two are more debated, given the risks they entail.

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1 In this paper we restrict our analysis to the retail digital euro, leaving aside its "wholesale" version.

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Indeed, CBDCs as an alternative to bank deposits could support the pursuit of price stability[2] and prevent anti-competitive dynamics,[3] but they could also weaken the commercial banking sector, undermining financial stability and credit provision.

From the outset, the ECB emphasised its intention to minimise any potential negative effects on financial stability and the banking sector

When it began assessing the possibility of issuing a digital euro – towards the end of the last decade – the European Central Bank focused primarily on the instrument's ability to become a valid dematerialised representation of banknotes and coins. Likewise, from the outset, the ECB emphasised its intention to minimise any potential negative effects on financial stability and the banking sector. As its first publication on the topic makes clear,[4] the Frankfurt institution acknowledged the digital euro's potential for supporting price stability. In this regard, although it did not consider remunerating CBDC holdings in the immediate term, it did not exclude that such a use "could emerge in the future on the basis of further analysis or owing to developments in the international financial system".[5]

In the progress reports published during the investigation phase (running from 2021 to 2023),[6] the ECB progressively fleshed out its vision, detailing the possible features of the digital euro. According to the documents produced by the Digital Euro High-Level Taskforce, the envisaged CBDC would be endowed with legal tender status, complementary (and therefore not substitutive) to banknotes and coins, usable both online and offline, and distributed through financial intermediaries. To limit negative repercussions on financial stability, Frankfurt also envisaged the introduction of holding limits, that is, caps on digital euro wallet balances designed to prevent a large-scale outflow of funds from the banking sector. At the same time, to ensure that such holding limits would not undermine the usability of the instrument, the ECB proposed the creation of waterfall and reverse-waterfall mechanisms which, by linking digital euro wallets to a bank account, would automatically transfer funds to/from CBDC deposits. In the three progress reports published before the European Commission's legislative initiative, the issue of interest-bearing CBDC remained in the background, with only a brief mention of the possibility of considering a decreasing remuneration on digital euro holdings, aimed at discouraging the accumulation of significant amounts of CBDC – again with a view to containing risks to financial stability.[7]

2 By remunerating CBDC wallets, and bypassing bank intermediation, the central bank could transmit its decisions to households and firms more quickly, thereby pursuing the objective of price stability more effectively.

3 Setting interest rates on CBDC wallets would establish a minimum remuneration floor for funds deposited with private banks – given the risk that these institutions could lose deposits to the digital currency if they offered rates lower than those paid by the central bank.

4 European Central Bank (ECB), *Report on a Digital Euro*, October 2020, https://www.ecb.europa.eu/pub/pdf/other/Report_on_a_digital_euro~4d7268b458.en.pdf.

5 Ibid., p. 3.

6 Please refer to the ECB website: *Technical Documents and Research*, https://www.ecb.europa.eu/euro/digital_euro/timeline/profuse/html/index.en.html.

7 Indeed, in the first progress report published by the ECB during the investigation phase, it is written that "remuneration-based tools could be calibrated to make large digital euro holdings above a certain threshold unattractive compared to other highly liquid low-risk assets". See ECB, *Progress on the Investigation Phase of a Digital Euro*, 29 September 2022, p. 9, https://www.ecb.europa.eu/euro/digital_euro/progress/shared/pdf/ecb.degov220929.en.pdf.

The Commission's proposal

From the beginning of the investigation phase, a shared conviction took hold within the European institutions and the academic community: the final decision on whether to issue a digital euro should rest solely with the ECB. At the same time, however, the idea also became firmly established that the Frankfurt institution, pursuant to Article 133 of the Treaty on the Functioning of the European Union (TFEU), would be able to proceed with the distribution of its CBDC only once the EU co-legislators – the European Parliament and the Council – had adopted an ad hoc legislative framework.[8] In June 2023, the European Commission then presented a draft Regulation on the matter.[9]

In its legislative initiative, the Commission largely followed the approach outlined in the ECB's progress reports, sketching a digital euro endowed with legal tender status, complementing rather than replacing traditional money, functioning both online and offline, free of charge for basic services, and distributed through financial intermediaries. At the same time, the Commission devoted particular attention to the issue of financial stability. It endorsed the introduction of holding limits, specifying that, in setting them, the ECB should give primary consideration to safeguarding financial stability. Moreover, the Commission proposed that the digital euro holdings could not be remunerated. Unsurprisingly, the latter provision sparked a lively debate as the absence of remuneration of the CBDC reduces its appeal to potential users and may undermine its role as monetary policy instrument.

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The ECB's reaction to the legislative proposal was broadly positive, given the many convergent points between its model and the Commission's. Nevertheless, albeit in diplomatic terms, Frankfurt made critical remarks concerning some of the Commission's proposals to ensure financial stability. In an opinion published on 31 October 2023,[10] the ECB raised two main objections.

The first concerned the holding limits. Frankfurt reaffirmed its intention to set such thresholds but asserted its discretion in determining them, as well as its primary competence in pursuing price stability. The second objection related to the payment of interest. While stating that it did not plan to remunerate CBDC holdings, the ECB argued that it would be inappropriate to establish a rigid constraint on the matter, as it could not be ruled out that, in a future context, remuneration might prove useful (and perhaps necessary) for the pursuit of price stability. Furthermore, the ECB reasserted its responsibility for retaining control over the remuneration of all its liabilities, adding that even if a provision

8 Fabio Panetta, former President of the Digital Euro High-Level Taskforce, stated explicitly several times that "only after the Parliament and the Council of the EU have adopted the legislative act", the ECB will decide whether or not to issue a digital euro. See ECB, *The Digital Euro: Our Money Wherever, Whenever We Need It. Introductory Statement by Fabio Panetta, Member of the Executive Board of the ECB, at the Committee on Economic and Monetary Affairs of the European Parliament*, Brussels, 23 January 2023, https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230123~2f8271ed76.en.html.

9 The Digital Euro Regulation Proposal is part of the Single Currency Package – a legislative initiative that also includes a Regulation proposal aimed at clarifying the concept of legal tender status. See European Commission, *Single Currency Package: New Proposals to Support the Use of Cash and to Propose a Framework for a Digital Euro*, 28 June 2023, https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3501.

10 ECB, *Opinion of 31 October 2023 on the Digital Euro*, 31 October 2023, http://data.europa.eu/eli/C/2024/669/oj.

were adopted categorically prohibiting the central bank from paying interest on deposits, it "could not, in any event, restrict the Eurosystem's primary law competence to independently define and implement the monetary policy".[11]

The legislative seesaw

After the European Commission presented its draft Regulation, the digital euro dossier entered a months-long stalemate. This impasse was due to the renewal of the European Parliament in the spring of 2024, which inevitably slowed down the legislative process. Yet two additional factors also contributed to halting discussion of the Commission's initiative.

The first was the persistent and widespread scepticism about the usefulness of the instrument. Indeed, towards the end of the ECB's investigation phase, several analysts raised doubts about the added value that the digital euro would bring to the European economy, while emphasising the risks it may entail for financial stability.[12] The idea took hold that there was no urgency to issue a CBDC and that, on the contrary, it was advisable to first assess the outcome of similar initiatives launched by other countries. The second "braking factor" was an intense lobbying effort by actors who felt that they could be exposed to competition from the digital euro. Reportedly, several operators in the banking and payments sectors exerted pressure on their political interlocutors with the aim of weakening the ECB's digital currency or even steering its creation process into a dead end.[13]

Concerns have emerged that the US Administration may use the dominant role of Visa and Mastercard in card payments to exert pressure on the EU

Then, with the re-election of Donald Trump as US president, the scenario changed radically. Trump's unilateralism and assertive stance towards America's historical allies have made Europe's dependence on US providers in segments of the payments sector increasingly problematic. Concerns have emerged that the US Administration may use the dominant role of Visa and Mastercard in card payments to exert pressure on the EU. As a result, the digital euro has been perceived as a potentially valuable instrument for safeguarding the EU's strategic autonomy – a public payment infrastructure which, in a world marked by growing geopolitical tensions, would represent an alternative to the private (extra-European) systems currently available. Thus, between late 2024 and early 2025, the process leading to the creation of a digital euro regained momentum, with academics, journalists and representatives of the European institutions identifying the project's geoeconomic relevance as its primary *raison d'être*.[14]

11 Ibid., point 10.7.

12 Among the sceptical voices were those of Ignazio Angeloni, Peter Bofinger and Thomas Haas. In this regard, see Angeloni, Ignazio, "Digital Euro: When in Doubt, Abstained (But Be Prepared)", in *European Parliament In Depth-Analyses*, April 2023, https://www.europarl.europa.eu/thinktank/en/document/IPOL_IDA(2023)741507; Bofinger, Peter and Thomas Haas, "The Digital Euro (CBDC) as a Monetary Anchor of the Financial System", in *SUERF Policy Notes*, No. 309 (April 2023), https://www.suerf.org/publications/suerf-policy-notes-and-briefs/the-digital-euro-cbdc-as-a-monetary-anchor-of-the-financial-system.

13 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. According to various media sources, the politicians most receptive to the private sector's concerns included the two figures who successively served as rapporteurs for the draft Regulation in the European Parliament: Stefan Berger and Fernando Navarrete Rojas – both members of the European People's Party (EPP).

14 Please allow us to refer to Bursi, Matteo, "Is the Digital Euro Back on Track?", in IAI Commentaries, No. 25|24 (April 2025), https://www.iai.it/en/node/19893.

In recent months, both the Council and the Parliament have reached internal agreements on the features of the euro-area CBDC

Council and Parliament positions

In recent months, both the Council and the Parliament have reached internal agreements on the features of the euro-area CBDC. The two agreements have many points in common, which makes it plausible that a consolidated text between the two European institutions could be finalised by the end of 2026 – an outcome which, according to the ECB, could allow the digital euro to become fully operational in the course of 2029.

On the Council's side, the accord was reached in December 2025,[15] without any significant divergences emerging (at least publicly) among the member states. The text endorsed by the EU finance ministers follows the approach outlined by the European Commission, confirming the digital euro's legal tender status, distribution modalities, online and offline functionality, free basic services, and the absence of remuneration on deposits. Likewise, the Council approved the introduction of holding limits on wallets, albeit with the noteworthy specification: that the maximum holding thresholds should be set by the Council itself after receiving a recommendation from the ECB, which would then calibrate holding limits but remaining below the "ceiling" established by the finance ministers.

Reaching an agreement within the European Parliament proved more difficult, mainly due to the position taken by the rapporteur for the draft Regulation, Navarrete Rojas, who proposed amendments to the Commission's proposal that would have substantially downgraded the instrument.[16] In particular, in addition to proposing a significant expansion of the categories of actors not obliged to accept digital euro payments (a change that would have undermined its legal tender status), the rapporteur envisaged a CBDC that could operate online only if no European private solutions emerged capable of providing an alternative to the foreign systems currently in use – a provision that could have limited the digital euro's use for offline payments.

These amendments generated an animated debate within the European Parliament, creating fractures within the coalition supporting the Commission. After months of discussion, it emerged that the rapporteur's position was only shared by a minority of MEPs. The main political groups succeeded in reaching an agreement that was approved by the Economic and Monetary Affairs Committee on 23 June 2026 and endorsed by the plenary on 9 July.[17] It almost

15 See Council of the EU, *Single Currency: Council Agrees Position on the Digital Euro and on Strengthening the Role of Cash*, 19 December 2025, https://www.consilium.europa.eu/en/press/press-releases/2025/12/19/single-currency-council-agrees-position-on-the-digital-euro-and-on-strengthening-the-role-of-cash.

16 Before presenting its amendments to the Regulation proposal, Navarrete also wrote a paper in which he outlined the reasons behind his scepticism regarding the digital euro project. Cfr. Navarrete Rojas, 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.

17 Consult European Parliament, *Digital Euro: MEPs Want to Ensure Sovereignty, Privacy and Financial Stability*, 23 June 2026, https://www.europarl.europa.eu/news/en/press-room/20260622IPR45912/digital-euro-meps-want-to-ensure-sovereignty-privacy-and-financial-stability; European Parliament, *Report on the Proposal for a Regulation on the Establishment of the Digital Euro*, 26 June 2026, https://www.europarl.europa.eu/doceo/document/A-10-2026-0185_EN.pdf.

entirely mirrors the model proposed by the European Commission, although a difference stands out regarding the setting of holding limits. Indeed, according to the European Parliament document, it should be the Commission, on the basis of an ECB recommendation, that sets the maximum thresholds through a delegated act, reviewing them at least every two years. In this framework, the Parliament and Council would have the power to object to the delegated act adopted by the Commission.

The ECB has welcomed the unblocking of the legislative process and, judging from statements made by several of its representatives,[18] seems to have broadly endorsed the digital euro's features outlined by the European Parliament and the EU Council. As for the payment of interest on deposits, it appears that the ECB has thrown the towel, accepting the prohibition on remuneration proposed by the Commission. In recent statements, senior members of the Digital Euro High-Level Taskforce, in an apparent effort to avoid opening further debates that could slow down the legislative process, have even suggested that the ECB never seriously considered the digital euro's potential as a monetary policy instrument.[19] Thus, it is now likely that CBDC wallets will not bear interest unless, as Frankfurt wrote in its October 2023 opinion, the ECB were to decide in the future to proceed unilaterally, triggering an institutional clash (currently hard to imagine) that would likely bring the matter before the Court of Justice of the EU.

A new (successful?) payment instrument

›› The digital euro would function primarily as a payment infrastructure alternative to those currently in use

The digital euro, as defined by the Council and the European Parliament, would function primarily as a payment infrastructure alternative to those currently in use, in a manner analogous to PIX in Brazil and UPI in India.[20] Its potential monetary policy applications, as well as its ability to serve as an alternative to bank deposits, would be highly reduced.

The creation of a genuinely European public payment infrastructure would undoubtedly represent an important step towards strengthening the EU's economic autonomy in a geopolitical context marked by rising tensions. In this sense, the introduction of a digital euro capable of competing with foreign actors operating in the payments sector – both American (Visa, Mastercard, PayPal) and Chinese (Alipay, WeChat Pay) – would be a useful innovation, enabling the EU to protect itself from threats and retaliatory measures. That said, one point must be emphasised: the euro-area CBDC will be equal to the

18 Take into account the recent statement of Christine Lagarde on the progress of the legislative process. See Vasquez, Eleonora, "'Digital Euro Will Not Replace Cash', Lagarde Tells Euronews as Negotiations Advance", in *Euronews*, 9 July 2026, https://www.euronews.com/my-europe/2026/07/09/digital-euro-will-not-replace-cash-lagarde-tells-euronews-as-negotiations-advance.

19 This emerged, for example, from the remarks of Piero Cipollone, President of the Digital Euro Highlevel Taskforce, during the event "Euro digitale e sovranità europea", organised by IAI on 28 May 2026. A video (in Italian) is available here: https://www.iai.it/en/node/22170.

20 See the Brazil Central Bank website: *PIX*, https://www.bcb.gov.br/en/financialstability/pix_en; and the Indian Ministry of Electronics and Information Technology: *Unified Payment Interface (UPI)*, https://www.digitalindia.gov.in/initiative/unified-payment-interface-upi. The comparison between the digital euro, PIX and UPI also emerged in a recent interview given by the Bundesbank President, Joachim Nagel. See Orchard, John, "Nagel Defends Digital Euro in Strategic Autonomy Push", in *OMFIF Commentaries*, 29 June 2026, https://www.omfif.org/2026/06/nagel-defends-digital-euro-in-strategic-autonomy-push.

task assigned to it only if it is widely used by citizens and businesses – and here lies the project's main problem. In the absence of interest rates and with holding limits that could be particularly low (if not set by the ECB), individual citizens and firms may not perceive the added value brought by the digital euro. It is worth noting that, in the cases of countries such as India and Brazil, the public-sector payment infrastructures succeeded because of the inefficiencies and high costs associated with private-sector solutions; in Europe the situation is different, with cutting-edge and low-cost payment options already in place. This may prevent citizens from switching to a CBDC wallet.

❯❯ It is essential that there be strong promotional efforts by banks, the main actors that will distribute the digital euro

To avoid that risk, it is essential that there be strong promotional efforts by banks, the main actors that will distribute the digital euro. Only the active commitment of credit institutions to opening digital euro accounts for their customers can ensure broad uptake of the instrument and thereby allow the EU to consolidate its own payment infrastructure.

The CBDC global race has started. Is the EU ready?

Should the draft Regulation be approved (as seems likely) by the end of the year, the EU would place itself among the group of countries leading the global race toward the creation of public digital currencies.[21] This group includes China – probably the country most advanced in the field –, but not the United States, given the firm opposition of the Trump Administration to the digital dollar project.[22] The emergence of CBDCs in various countries will give rise to new cross-border payment infrastructures that will represent an alternative to those currently dominant. Being at the forefront in this field, the EU could play an active role in building these new networks and support the international use of its currency, which may contribute to strengthening the European position on the global economic chessboard. A digital euro could represent an innovation of great significance for reinforcing Europe's autonomy and relevance in an international environment marked by growing tensions. However, the euro-area CBDC must first succeed within Europe's borders – something that cannot be taken for granted.

The potential economic and social effects of CBDCs are difficult to estimate. It is important, therefore, to approach them carefully. At the same time, when defining an *ex ante* regulatory framework, it is equally important to remain flexible and avoid establishing disproportionate rules that could cripple the potential of the digital currency. While the overcoming of the legislative impasse over the digital euro is a promising development, concerns remain regarding key features of the project and its implementation. Indeed, in the rush to equip itself with a digital euro in light of the "Trump threat", it seems that the EU institutions have been content to obtain a CBDC quickly, agreeing to accommodate – in order to accelerate the deliberation process – the demands of interest groups regarding contentious issues. The eventual result risks

21 With regard to the state of progress of CBDC projects worldwide, see the Central Bank Digital Currency Tracker developed by the Atlantic Council: https://www.atlanticcouncil.org/cbdctracker.

22 Consider the Executive Order 14178: White House, *Strengthening American Leadership in Digital Financial Technology*, 23 January 2025, https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology.

being a digital euro with limited potentialities. In this perspective, an option is to reconsider some of the constraints imposed on the design of the euro-area CBDC – even at the cost of delaying approval of the draft Regulation by a few months. A renewed discussion would be particularly important regarding the remuneration ban and who should be responsible for determining wallet holding limits.

It would be appropriate to confer the power to determine holding limits exclusively to the central bank for three reasons. First, the ECB has at its disposal expertise and data that far exceed those available to the European Parliament, the Council and the European Commission. Second, the ECB is an independent actor, insulated from political or lobbying pressures that could push towards excessively low thresholds. Third, the timelines governing Frankfurt's decision-making are far quicker (and more aligned with market developments) than those of the co-legislators. Arguably, the introduction of holding limits – calibrated by the ECB – would suffice to prevent a substantial outflow of funds into the CBDC. The decision to prohibit remuneration of wallets therefore appears excessive, as it would tie the ECB's hands, as illustrated by the case of China, which only a few months ago decided to remunerate digital yuan wallets in order (it is believed) to facilitate the adoption of its CBDC.[23]

Better to join the race with a slight delay but with a full tank, than to take part from the outset in the competition without having enough fuel to reach the finish line.

23 On this topic, see Chhangani, Alisha, "What to Watch as China Prepares Its Digital Yuan for Prime Time", in *Econographics*, 15 January 2026, https://www.atlanticcouncil.org/?p=899388.

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