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Is the Digital Euro Back on Track?

by Matteo Bursi

The digital euro represents a potentially disruptive project for the European economy and society. An EU Central Bank Digital Currency (CBDC) could have significant consequences across a multitude of areas – such as monetary policy and financial stability – fundamentally changing the way citizens manage their money. Likewise, the digital euro could serve as a useful tool to further integrate the financial systems of EU member states and strengthen the overall (and still fragile) European sovereignty.

The European Central Bank (ECB) has been working on the digital euro for some time and, in October 2023, entered the project's preparation phase, aimed at studying its possible practical implementation. According to the predominant interpretation of legal scholars (also shared by the ECB), the issuance of a digital euro would require action by not only the central bank but also the EU legislator, who, through the ordinary legislative procedure, would need to establish the framework within which Frankfurt could issue its digital currency. In June 2023, the European Commission presented a draft Regulation on the matter;[1] however, this proposal has so far failed to spark significant interest among politicians and the general public.

The presidency of Donald Trump, on this matter as on many others, could unexpectedly act as an accelerator. Indeed, the growing transatlantic tensions raise concerns about the appropriateness of relying solely on foreign entities for payment services, which are currently almost entirely controlled by US operators. Thus, the digital euro could be a truly European alternative that could protect interests that are not only economic, as has been recently highlighted by supporters of the project – whether from the ECB, academia or political

[1] 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.

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circles.[2] Nonetheless, even among its supporters, there are still important differing views on the specific features that the digital euro should have.

The ECB model

It has now been five years since the ECB established a high-level taskforce on the digital euro. In this period, the ECB first explored the topic from a theoretical perspective, during a 24-month investigation phase; subsequently, in October 2023, it entered the preparation phase. In various progress reports, the ECB has provided indications about the potential features of a digital euro.

First and foremost, the ECB has clarified that its CBDC would not replace traditional money, but rather complement coins and banknotes. Similarly, just like physical cash, the digital euro should be recognised as legal tender: except in specific situations, it would not be possible to refuse a payment made with it within the Eurozone. Basic functionalities related to digital euro deposits would be free of charge for individuals; likewise, for small amounts, offline payments would be allowed.[3] The infrastructure would be managed directly by the ECB, while the opening of wallets – and related onboarding activities (such as anti-money laundering compliance) – would be delegated to financial intermediaries. These intermediaries could also offer customers additional (potentially paid) services linked to CBDC deposits.

When it comes to financial intermediaries, the most complex issue related to CBDCs is financial stability. To prevent a dangerous outflow of funds from bank deposits, the ECB has proposed introducing holding limits to cap the amount of money that can be held in digital euro wallets. Especially during the initial phase, by applying holding limits of a few thousand euros (3 to 5,000), the ECB aims to prevent a potentially destabilising flight from traditional bank accounts that could jeopardise credit provision and overall financial stability.

Instead, regarding the issue of whether interest rates would be paid on deposits – a key factor in making the digital euro useful for conducting monetary policy –, the ECB has refrained from taking a definitive stance: it has neither committed to paying interest nor ruled out this possibility.

The Commission's proposal and the ECB's comments

On 28 June 2023, the European Commission, pursuant to Article 133 of the TFEU,[4] presented a draft

[2] Consider, among others, the recent speech of Piero Cipollone: ECB, *Empowering Europe: Boosting Strategic Autonomy through the Digital Euro. Introductory Statement by Piero Cipollone, Member of the Executive Board of the ECB, at the Committee on Economic and Monetary Affairs of the European Parliament*, Brussels, 8 April 2025, https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250408~40820747ef.en.html.

[3] According to the ECB's progress reports, offline transactions could take place in physical proximity using, for example, the near-field communication technology. A "line" would then appear on the digital euro deposit statement in which a generic payment of the amount being transacted is presented (as is the case today for ATM withdrawals).

[4] "Without prejudice to the powers of the

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Regulation concerning the digital euro. This initiative follows the ordinary legislative procedure; therefore, the European Parliament and the Council share equal decision-making power on the matter.

The Commission's draft Regulation largely aligns with the ECB's previous progress reports. The EU executive has envisioned a CBDC that complements (rather than replaces) traditional money, holds legal tender status and is distributed through financial intermediaries. Similarly, the Commission has proposed that basic functionalities of digital euro wallets be free of charge and that offline payments be allowed below certain thresholds.

In its proposal, the Commission also gave prominence to the issue of financial stability, also envisioning the introduction of holding limits on deposits. On the potential payment of interest on deposits, Brussels ventured further than the ECB, establishing in Article 16.8 of the draft Regulation that "the digital euro shall not bear interest". This provision raises concerns regarding the significant weakening of the instrument that this could imply. By denying the issuing institution the ability to pay interest, the digital euro would lose much of its potential to influence monetary policy and, at the same time, become less attractive to citizens. Likewise, a CBDC that does not offer yields would be unable to prevent the formation of "cartels" in the banking sector aimed at inadequately remunerating users' deposits.[5]

Therefore, the ECB itself expressed disagreement with this provision. In an opinion published in October 2023,[6] the Central Bank – while stating that it did not intend (at least initially) to pay interest on deposits – wrote that categorically excluding this option is a mistake, both because the ECB must retain control over the remuneration of all its liabilities and because, in the future, paying interest on CBDC wallets might be necessary to pursue the primary objective of price stability. Furthermore, the ECB added that, even if the legislative branch imposes such a ban, the ECB could still decide to pay interest on digital euro deposits, given the independence in conducting monetary policy ensured by Article 130 of the TFEU.[7]

The Trump factor

Since its publication, the draft Regulation on the digital euro has made

European Central Bank, the European Parliament 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."

[5] A situation experienced, for example, during the recent inflation surge (after the interest rates increases determined by the ECB), when the vast majority of banks raised interest rates on loans without doing the same on citizens' deposits.

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

[7] "When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body."

little progress. The change in legislature that took place in 2024 undoubtedly slowed the legislative process but attributing full "responsibility" for this inaction to the renewal of the European Parliament would be inappropriate. Not only have some opposition parties – such as the European Conservatives and Reformists – expressed their opposition to the overall project (stating that that "the added value of the digital currency has not yet been demonstrated"),[8] but even within the governing coalition divergent views have emerged: the Socialists support the initiative, while some prominent members of the European People's Party – particularly worried about the instrument's impact on financial stability – have voiced concerns over various aspects of the digital euro.[9] While the European Parliament appears to be at an impasse, national governments have also shown little attention to the matter; the Eurogroup has expressed general support for the project in recent months, but without giving any decisive push to the legislative process. At the same time, suspicions have been growing that certain private entities may have successfully carried out intense lobbying activities aimed at weakening the digital euro to preserve long-standing 'market positions' that the euro-CBDC might theoretically disrupt.[10]

In a context where the digital euro project appears stalled, the Trump presidency could act as an unintended "unlocking factor". The hostile attitude shown by the US administration toward the EU raises concerns about Europe's dependence on US-controlled payment systems: an issue long overlooked due to the solid transatlantic relations that now deserves careful attention, given the brutal negotiation tactics of the 47th US President. Could the Trump administration use this dependency as leverage to pressure the European Union in the future?

Looking ahead

In light of this risk, the digital euro gains renewed significance as a tool that would allow payments to be processed on a genuinely European infrastructure, ensuring the highest protection of fundamental rights in modern society (such as data confidentiality). The development of a euro-CBDC would facilitate the strengthening of continental sovereignty and the consolidation of the strategic autonomy that the EU, in the current global landscape, greatly needs.

However, while the focus returns to the project, the more controversial elements of the draft Regulation must be addressed, particularly the issue

[8] See the European Conservatives and Reformists website: *Johan Van Overtveldt (ECR Group): Digital Euro Introduction Must Be Postponed*, 27 September 2023, https://ecrgroup.eu/article/johan_van_overtveldt_ecr_group_digital_euro_introduction_must_be_postponed.

[9] Giovanna Faggionato, "Can a German Lead the Digital Euro through the European Parliament? The EPP Seems to Think Not", in *PoliticoEU*, 12 December 2024, https://www.politico.eu/?p=5867697.

[10] Alexander Fanta 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.

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of interest payments on deposits. The framework envisioned by the Commission not only weakens the instrument's role in monetary policy, but also undermines the digital euro's appeal for potential users, reinforcing concerns that citizens may struggle to perceive any added value in using a euro-CBDC. And if citizens – who already manage their money easily and cheaply via online banking and payment apps – perceive little utility in the digital euro, its adoption will likely be low. Something that would be detrimental to Europe's sovereignty and strategic autonomy.

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