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EUROPEAN MONETARY SOVEREIGNTY
IN THE DIGITAL AGE

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1. INTRODUCTION

In an age marked by the convergence of the digital revolution and intensifying geopolitical competition, the question of European monetary sovereignty—as part of the pursue of strategic autonomy by the Euro area—has gained renewed urgency. As technologies linked to blockchain, cryptocurrencies, stablecoins and digital payment systems redefine the architecture of global finance, sovereign states are increasingly asserting power through infrastructures, new regulations, and the prospect of new monetary instruments such as central bank digital currencies (CBDCs).

This paper investigates how monetary sovereignty will be transformed in the digital era, and what this transformation means for the European Union's position vis-à-vis the United States and China. Through a conceptual and comparative lens, the paper explores the structural factors that shape Europe's monetary sovereignty, from market-based vulnerabilities to reliance on foreign infrastructure to the possibility of creating deeper fiscal integration in the Union. It pays particular attention to the EU's capacity to project monetary influence internationally and considers whether initiatives like the digital euro can serve as levers of strategic autonomy.

The paper provides a series of policy recommendations aimed at strengthening the EU's monetary autonomy, reinforcing its geopolitical standing, and shaping the emerging global order in accordance with European interests and values.

CONCEPTUALISING MONETARY SOVEREIGNTY IN THE DIGITAL AGE

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2. CONCEPTUALISING MONETARY SOVEREIGNTY IN THE DIGITAL AGE

2.1 KEY DEFINITIONS: MONETARY SOVEREIGNTY, GEOECONOMICS, AND CBDCS

The European Union aims to achieve greater strategic autonomy to thrive in the new global geopolitical order, and **monetary sovereignty** is a fundamental and central pillar of that effort.

To strengthen the euro and advance in the EU's strategic autonomy, we argue that it is necessary to make progress on three fronts:

01.
The issuance of joint debt, exemplified by the Next Generation EU program, which represents a first step toward a common fiscal capacity which is necessary to finance European public goods.

02.
Completing the banking union and capital markets union. Their consolidation would enable a more efficient allocation of capital across the Euro area, reduce financial risks from the persistent doom-loop between national banks and sovereigns, and increase the system's resilience to external shocks.

03.
The digital euro, which could become a strategic instrument for European sovereignty, especially in the field of retail and wholesale payments, security settlement and collateral management, reducing thus reliance on extraterritorial systems, providing more efficiency and stability and providing certain protection against external coercion.

In this sense, **monetary sovereignty** refers to the ability of a country to exercise full control and autonomy over its monetary and financial system, including the power to issue currency, conduct monetary policy and establish financial regulations. Traditionally, this authority was understood primarily as a legal and institutional competence. Today, however, monetary sovereignty also entails the capacity to exercise these powers effectively and responsibly within a highly

The development of CBDCs is a public response to the digital transformation of global finance.

interdependent and technologically evolving global environment—one shaped by great power rivalry and the consequent weaponisation of economic relations. It serves not only as a tool for autonomy but also as a framework of legitimacy—anchored in the responsibility to ensure monetary and financial stability, public trust, and strategic autonomy.[1]

Geoeconomics, on the other hand, refers to the use of policies such as trade policy, investment policy, sanctions, and access to financial and technological infrastructures to advance geopolitical objectives. Rather than resorting to traditional military power, states increasingly rely on economic leverage to compete and exert influence—transforming global markets into arenas of strategic rivalry.[2] A similar concept is that of **economic statecraft**, which in its most basic definition can be described as using economic means for political purposes. This should not be confused with economic policy. Here the aim is to achieve strategic or foreign policy objectives in the continuous struggle for power and economic gains.[3]

In this context, **central bank digital currencies** (**CBDCs**) are starting to reshape monetary sovereignty in the digital age. **Domestically**, CBDCs have the potential to serve as public alternatives to so-called private digital money, reinforcing the central bank's role in providing sovereign currency amid the declining use of cash. They also enable states to shape settlement and payment infrastructures, influence market structures, and enhance financial inclusion.[4] **Internationally**, CBDCs are tools to reduce dependence on dominant foreign currencies and infrastructures, support currency internationalization, and influence the future architecture of cross-border finance.

This paper focuses predominantly on sovereign digital currencies—namely, those issued or institutionally backed by central banks—as tools of monetary policy and state power. It is important to distinguish CBDCs from **cryptocurrencies** such as Bitcoin or Ethereum or stablecoins such as Tether and USD Coin. Cryptocurrencies and **stablecoins** are privately issued "near-money". They are not backed by any public authority, and under our understanding they **are not money**.[5]

The development of CBDCs is a public response to the digital transformation of global finance. No longer shaped solely by sovereign fiat money and traditional central and commercial banking, monetary ecosystems are increasingly influenced by data flows, digital platforms, and programmable payment systems.

The infrastructure behind money matters as much as money itself. Sovereignty, therefore, is not just about legal authority but also about the ability to build, govern, and secure the infrastructure that mediate monetary power.[6]

2.2 KEY DEBATES

The central question this paper addresses is how the EU can leverage its currency to gain strategic autonomy and support the **three transitions** needed to drive the three priority areas identified in the Draghi report: **technological innovation, the green transition, and reinforced security and defence**.[7] One of the main obstacles to the EU's strategic objectives is its deficit of investment. As Enrico Letta highlights in his study[8] about the future of the single market, the EU has a savings union, but roughly €300 bn per year flow into the US instead of financing companies in Europe.

This challenge requires, among other actions, meaningful progress toward fiscal integration, and the creation of a European safe asset—such as **EU bonds**—that can provide a stable foundation for the European financial system and consequently help create a capital markets union.[9] The digital euro is just the digital representation of European sovereignty. Therefore, the most strategic use of the European currency in the digital revolution we are experiencing lies in **issuing joint debt** to finance the public goods that are needed to achieve greater strategic sovereignty. Unlike the United States, which benefits from a unified fiscal system and a central bank—the Federal Reserve—the EU lacks such a fundamental institutional setup.

The digital euro is frequently framed, and rightly so, as a response to external dependencies. CBDCs represent an opportunity to assert state authority over the monetary domain—particularly in payment and settlement systems—by reducing reliance on foreign-controlled payment and settlement infrastructures. However, CBDCs may be insufficient if not embedded in a broader strategy to address infrastructure dependence, market power asymmetries, and questions of data governance. Internationally, geoeconomics is as important as ever. China's rollout of the e-CNY reflects the objective of reducing its reliance on the U.S. dollar and to position its currency use in bilateral trade and finance.

> Thus, the EU's digital euro must increasingly be viewed through a geoeconomic lens, as a potential tool for enhancing not only monetary but also strategic autonomy.

In contrast, the United States has taken a markedly cautious and politically polarized stance on CBDCs. The Trump administration is betting on **stablecoins**—a risky exercise, leaving open questions about its future role in shaping international digital currency norms. Thus, without coordination and shared standards, the global spread of CBDCs could give rise to competing, **non-interoperable systems**—structured more by geopolitical rivalry than global integration.[10] Ultimately, for the EU, the goal is not to displace the dollar but to ensure **its strategic capacity to act autonomously**. In a contested global system, marked by great power rivalry, monetary resilience and autonomy are not abstract ideals—they are preconditions for advancing in the EU's sovereignty.

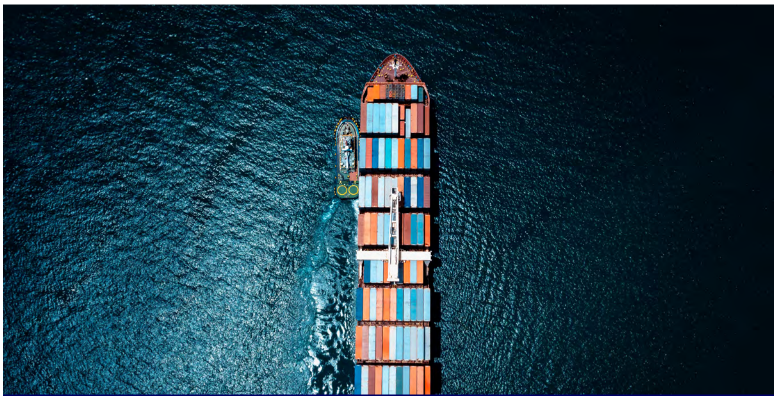
FINANCIAL MARKETS UNDER-DEVELOPMENTS

03

3. FINANCIAL MARKETS UNDERDEVELOPMENTS

3.1 INTERNATIONAL FINANCIAL CENTERS

Europe's financial market infrastructure is fragmented and, after Brexit, lacks an international financial center that matches the global prominence of New York or London. European **fragmentation is partly due to regulatory and fiscal divergences** among member states, which prevent a unified financial hub from emerging. Currently: Europe's financial landscape limits its ability to advance its strategic autonomy.[11] Frankfurt, Paris and Amsterdam compete to replace London's financial centrality, yet neither has achieved significant global financial market attractiveness. However, Europe's challenge is not about lacking a single, concentrated Wall Street-style hub; rather, it is **the lack of broadness, depth and liquidity** of the European financial system. As a result, without a strong international financial center, the EU remains dependent on the US dollar infrastructure, constraining European monetary sovereignty. These shortcomings need to be addressed.



RECOMMENDATIONS:

01/
Make use of the current window of distrust vis-à-vis the dollar due to Trump's radical policies and *repatriate capital currently invested in Treasuries.*[12]

02/
Issue, in sufficient volume, an EU sovereign risk-free asset. This would help complete the banking union, break the doom-loop between national banks and national sovereigns: encourage the formation of pan European banks and promote more cross-border pan European investment.

03/
Harmonize financial regulation, tax policy, bankruptcy laws and infrastructure investment across EU member states to develop a global financial center.

04/
Establish a 28th business regime, as proposed in the Letta report, to overcome the national roadblocks that exist toward this harmonisation. This could be done by using the "enhanced cooperation" instrument which allows nine or more EU member states to move toward deeper integration if they so wish. A first move was proposed by Spain, with its "Competitiveness Lab" and the creation of a harmonised credit rating system for small and medium-sized businesses.[13]

05/
Consider a hybrid strategic investment fund that blends EU-issued bonds with private investment to mobilize capital for innovation and to support innovative enterprises.

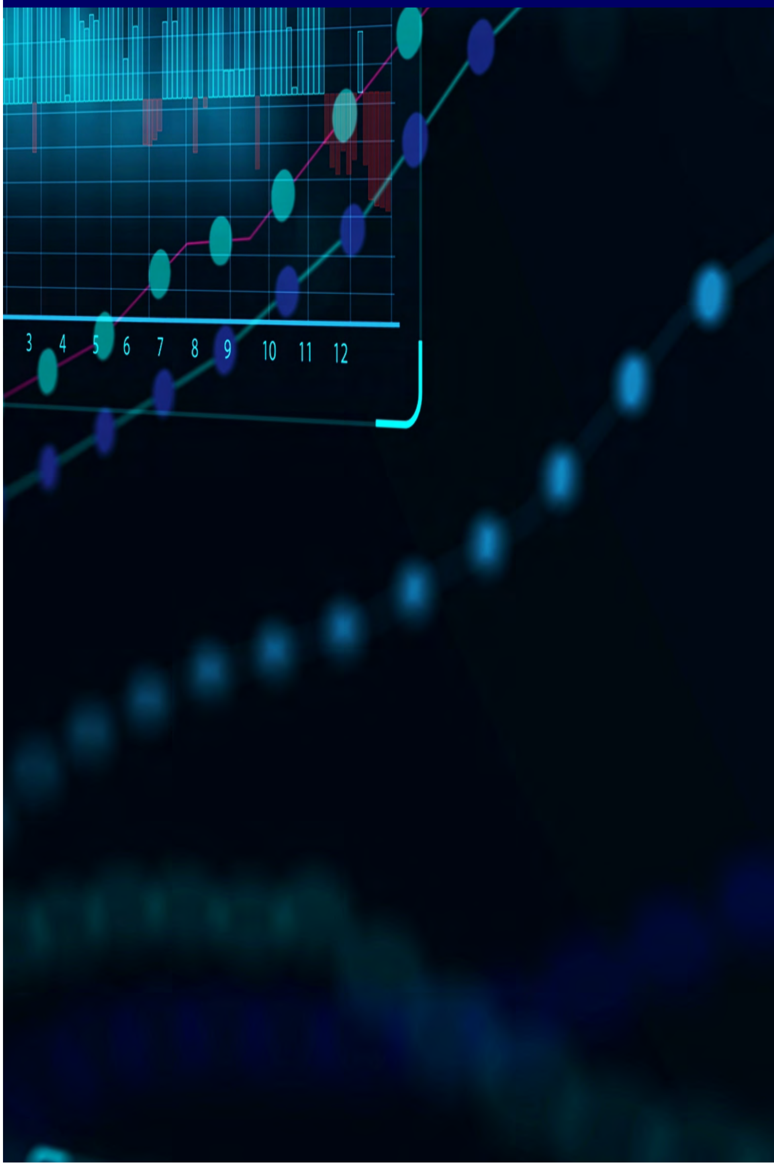
3.2 INTERNATIONAL LIQUIDITY AND SAFETY NETS

The global liquidity safety net remains predominantly dependent on US dollar liquidity provided by the **Federal Reserve's swap lines** during times of financial stress. Europe's reliance on these dollar-based swap lines exposes the EU to US monetary policies and geopolitical considerations, limiting European monetary autonomy and reducing its strategic flexibility. The **US dollar's centrality** allows the Federal Reserve to manage **global liquidity** indirectly, reinforcing US geopolitical leverage over other economies. The US dollar accounts for approximately 90% of all foreign exchange trades globally, underscoring its systemic dominance as the principal currency of international finance and trade, with the euro a distant second with a market share of 30% (out of 200% because there are always two currencies involved).

RECOMMENDATION:

The EU should scale up the ECB's euro-denominated bilateral swap agreement with other central banks around the world. Strengthening cooperation with other central banks to develop euro (or even dollar) liquidity agreements, would diversify the global financial safety net away from exclusive dollar and US reliance. This is particularly relevant now that the Trump administration might have more political control over the FED.

The globalization of finance is such that, through the decentralization of money production via the commercial banking system, more dollars are now created outside than inside the US.[14] This has transformed monetary power relations. For the US, this represents a form of **"indirect rule"**: its monetary leverage is exercised through global banks and offshore financial centers, rather than purely through domestic institutions. However, by controlling dollar liquidity—primarily through open (bond) market operations, interest rate decisions and currency swap arrangements—the Federal Reserve indirectly influences global capital flows, credit conditions, and financial stability far beyond US borders. Through its currency dominance, the US can exert geopolitical influence, shaping international relations and compelling other countries to align with US foreign policy objectives under threat of financial exclusion.



The ECB has established its own euro-based liquidity swap lines, yet their scale and global reach remain limited compared to the Federal Reserve's dollar swap network. Past crises, including the Eurozone crisis and COVID-19, highlighted Europe's vulnerabilities due to insufficient intra-EU liquidity arrangements and reliance on external liquidity sources, especially the FED.[15]

3.3 THE US TREASURY EXTRATERRITORIALITY

The US dollar's dominance grants the US Treasury extraordinary **extraterritorial power** to enforce sanctions globally, exemplified clearly by **sanctions against Iran** over the past decades and especially during the first Trump administration. Already in 2014, the French bank **BNP Paribas** pleaded guilty in front of US authorities recognising that it had helped its customers to overcome US trade sanctions against Cuba, Sudan and Iran and paid a US$9bn fine. In May 2018, under the Trump administration, the United States withdrew from the Joint Comprehensive Plan of Action (JCPOA)—commonly known as the Iran Nuclear Deal—and reinstated severe economic sanctions against Iran, extending these sanctions extraterritorially through dollar-based financial channels. Major European firms, including **Total, Siemens, and Peugeot**, rapidly ceased operations in Iran to avoid US sanctions, highlighting the profound leverage the US Treasury exercises globally.[16]

The EU explicitly opposed the reinstatement of US sanctions, perceiving them as harmful to European sovereignty and economic interests. Despite political opposition, European governments and the European Commission found themselves largely incapable of effectively shielding their companies from compliance with US demands due to the dollar's dominance. In response to the US's reimposition of sanctions, the European Union introduced the **INSTEX (Instrument in Support of Trade Exchanges)** mechanism, designed to facilitate non-dollar-based trade with Iran, thus circumventing US sanctions. However, INSTEX largely failed to gain significant traction or effectiveness due to the limited willingness of European banks and firms to participate, fearing retaliation by the US.[17]The coercive power of US sanctions is rooted not just in geopolitical will, but structurally embedded within the global financial infrastructure, significantly limiting the ability of European institutions to mitigate or bypass these sanctions.

RECOMMENDATIONS:

01/
To counterbalance US extraterritorial sanctions, Europe must develop alternative clearing and settlement mechanisms and payment infrastructures independent from US financial institutions, promoting euro-based solutions.

02/
Even after its own sanctions against Russia, some of them using SWIFT, the EU should advocate for international legal frameworks limiting the unilateral use of extraterritorial sanctions, promoting transparency and multilateral oversight of these regimes.

03/
Europe should actively pursue technological and regulatory initiatives to enhance financial sovereignty, including alternatives to SWIFT and other measures to shield European companies from US secondary sanctions.

04/
Europe's approach must balance necessary security cooperation with the US while preserving autonomy, requiring institutional enhancements and greater political unity around financial and monetary sovereignty.

05/
Overall, the EU should encourage European firms to invoice their international trade and investment operations in Euros.

DEPENDENCIES ON US PAYMENT INFRASTRUCTURE/ COMPANIES

04

4. DEPENDENCIES ON US PAYMENT INFRASTRUCTURE/ COMPANIES

4.1 SWIFT

SWIFT's central role in global financial communications makes it a **critical instrument** through which the US has been exerting extraterritorial economic coercion, enabling detailed tracking and enforcement of sanctions.

> The exclusion from SWIFT represents a severe economic threat, effectively isolating countries from the international financial system.

In the wake of 9/11, US authorities notably expanded their surveillance and enforcement capabilities through SWIFT, using the system to track and enforce sanctions against individuals, companies, and states globally.[18] The power to sanction via SWIFT illustrates a form of "weaponized interdependence," where the US strategically exploits economic interconnectedness to assert geopolitical objectives.

However, it is also worth noting that the EU does have a relative advantage over countries like China, India and Brasil because SWIFT is based in Belgium and is participated by many European banks, meaning it's subject to EU regulations and oversight. This means that while SWIFT can become a vulnerability vis-à-vis the US, it can also function as a European economic statecraft tool against third parties.

RECOMMENDATIONS

01/
The European Union must pursue the establishment and expansion of a European-controlled payment messaging system or a strengthened version of existing initiatives (such as INSTEX), reducing dependence on SWIFT if necessary and enhancing its own strategic autonomy.

02/
The EU should leverage the current geopolitical shifts—such as deteriorating trust in US unilateral policies—to secure investment and political backing for robust alternatives to SWIFT, thereby protecting European economic interests from future geopolitical disruptions.

03/
European policymakers must prioritize creating political consensus and institutional frameworks to support and protect European financial institutions willing to engage with non-US-controlled payment infrastructures.

4.2 CHIPS

The Clearing House Interbank Payments System (CHIPS) is a private USD clearing infrastructure substantially reliant on the Federal Reserve's Fedwire, used for settling large-value cross-border payments, which account for most cross-border payments by value. Cross-border payments remain overwhelmingly dollar-based, and CHIPS is the dominant system for their final settlement. Even when alternative systems like China's CIPS (Cross-Border Interbank Payment System) or bilateral arrangements exist, dollar transactions often still rely on CHIPS and Fedwire to finalize transfers.

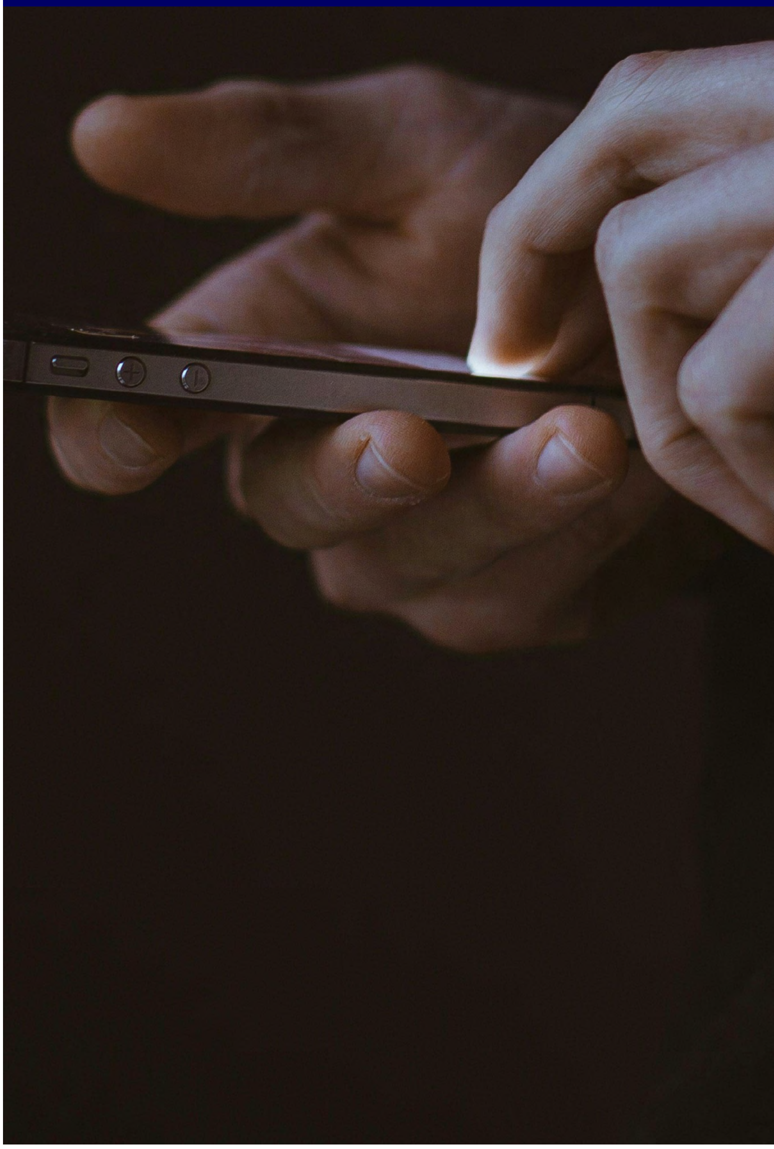
> CHIPS operates under US regulatory jurisdiction, granting US authorities the power to monitor, restrict, or terminate transactions involving foreign entities, thus enabling strategic geopolitical leverage.

With this context in mind, fear of secondary sanctions tied to CHIPS usage has grown in regions like Asia after the reactivation of US sanctions against Iran and the financial isolation of Russia. This reflects CHIPS's role not just as a technical system, but as a node of geopolitical enforcement. European financial institutions attempting to circumvent the US system (e.g., via INSTEX) face technical and diplomatic limits. This failure highlights the need for alternative clearing systems that are credible, efficient, and shielded from US legal reach.[19]

RECOMMENDATIONS

01/
The EU should further promote and strengthen its Target2 payments system within and beyond the Union.

02/
The EU should closely monitor non-EU and non-US alternative payments systems such as CIPS promoted by China and local currency settlement (LCS) arrangements by ASEAN countries and see their impact on European monetary sovereignty.



4.3 VISA AND MASTERCARD

VISA and Mastercard, two US-based companies, dominate global retail payment networks, processing most of the cross-border credit and debit card transactions worldwide. Thus, data generated by VISA and Mastercard flows through US infrastructure and falls under US legal jurisdiction, raising **privacy and security concerns** about non-European access to sensitive transaction information.

In March 2023, ASEAN Finance Ministers and Central Bank Governors discussed a coordinated plan to reduce dependence on US Dollar, Euro, Yen, and British Pound from financial transactions and move to settlements in local currencies which included an explicit call by Indonesia to **phase out Visa and Mastercard** in favour of domestic and regional alternatives.[20] Enrico Letta in his report and subsequently in his public appearances has openly called to build **European alternatives** to VISA and Mastercard's dominance of European retail payments.

EU infrastructures such as TARGET2 and TIPS ensure efficient euro settlements within the Union, but they lack the international reach and strategic leverage of US systems like CHIPS or Fedwire. Efforts to enhance autonomy through retail systems like the European Payments Initiative (EPI) remain fragmented and have not translated into geopolitical resilience with diversification only on the margins. Thus, Europe's payment ecosystem is still constrained by its dependence on the dollar-based system, especially in areas like energy trade and defence procurement.

Without political cohesion and a central fiscal capacity, payment autonomy cannot scale into full monetary sovereignty.

RECOMMENDATION

The EU and its member states should support and promote initiatives like EU Wero (especially strong in Germany, France and Belgium) and EuroPA which unites payment systems from Italy (Bancomat), Spain (Bizum), and Portugal (SIBS) and aims to facilitate interoperability among various European mobile payment solutions, allowing users to make instant payments across different countries.

THE INTERNATIONAL ROLE OF THE EURO

05

5. THE INTERNATIONAL ROLE OF THE EURO

5.1 THE EURO AS AN INTERNATIONAL CURRENCY

The euro remains the world's second-most important currency for international reserves (roughly at 20%) and trade invoicing (40% of exports), but its global role has plateaued over the past decade, far behind the US dollar in every dimension. Until now the ECB has not actively pursued internationalization as a strategic goal, in contrast with the US Federal Reserve, which indirectly supports the dollar's geopolitical dominance. But this is changing in the current context with ECB president Christine Lagarde openly calling for a more international euro.[21] The euro's global role has stagnated over the past decade due to its structural fragmentation.

> The lack of a full fiscal and political union, which translate in a lack of liquidity in the European sovereign debt markets, creates a structural disincentive for international investors.

Today **no currency currently offers a complete alternative to the US dollar** despite the erratic policies of the Trump administration, as the euro lacks statehood and the yuan lacks trust—leaving the dollar unchallenged by default. More importantly, and this is a structural factor, neither the EU nor China seem to be ready to reduce substantially their current account surpluses nor to promote the issuance of yuan or euro-denominated financial products overseas. The euro is predominantly used in neighbouring countries and within the euro area, underscoring its limited regional reach. Thus, in emerging scenarios of dollar retreat, such as in Southeast Asia or under hypothetical more pronounced US isolationism, even with the possibility of capital controls to reduce the entrance of foreign capital into the US,[22] the euro is unlikely to fill the vacuum unless it evolves from a technocratic to a politically backed currency. **Germany's historical fiscal and monetary conservatism** has limited the EU's capacity to internationalise further its currency and be more protected vis-à-vis dollar shocks and US monetary power. But this might change with the recent lifting of the debt brake under Friedrich Merz.[23]

RECOMMENDATIONS

01/
To reduce dependence on the US dollar as the world's dominant reserve currency, the EU should fully develop the capital market union as well as a credible political framework behind joint debt issuance.

02/
Issue EU-Bonds as much as the current capacity allows.

03/
The European Commission and the ECB, and the EU member states should actively promote the international use of the euro by advancing in the fiscal, banking and capital markets union.

04/
Europe and other major economies should actively pursue diversification away from dollar dependence by promoting alternative liquidity frameworks, such as euro or other major-currency-based swap lines, reducing vulnerability to US geopolitical leverage.

5.2 THE POSSIBILITY OF JOINT ISSUANCE OF EURO-DEBT (EU BONDS)

The issuance of joint EU debt under the NextGenerationEU program has demonstrated that common fiscal tools are not only feasible but also credible in the eyes of financial markets. **EU bonds** have been treated by investors as safe assets, with yields converging with those of high-rated sovereigns—signalling growing market confidence in the euro as a currency backed by shared fiscal capacity.[24] However, the capacity is limited, and the Euro area needs to build a large market to compete with the US Treasury market. A framework for the issuance of EU bonds would provide a euro-denominated safe asset capable of attracting global capital, but **key member states continue to oppose such integration** due to concerns over national fiscal sovereignty and moral hazard.

> The issuance of euro-denominated green bonds has shown some potential to position the euro as a currency aligned with global sustainability objectives, attracting interest from international investors.

The global use of the euro is constrained not by market capacity, but by institutional design. Without deeper political integration and strategic intent, the euro will remain a secondary currency with limited geopolitical influence.

RECOMMENDATION

Given current resistance by Germany, the Netherlands, Austria, Finland, Denmark and Sweden[25] rather than calling for a full-blown fiscal union, the focus should be on identifying specific European public goods and funding them via the issuance of EU bonds. The goal is to determine concrete projects and finance them through EU-level instruments instead of proposing a broad fiscal union.

THE DIGITAL EURO AS THE WAY FORWARD?

06

6. THE DIGITAL EURO AS THE WAY FORWARD?

6.1 STATE OF PLAY

Euro Area's Digital Euro

The ECB is presently preparing the issuance of a **digital euro**. Following exploratory initiatives launched in 2020, the ECB is putting the final touches on a rulebook, procuring technological providers, and testing extensively to confirm the viability and safety of a CBDC that is **retail-focused**, although it could also be **wholesale**.

In June 2024, the ECB published its inaugural report of progress and delivered an interim roadmap, prioritizing privacy safeguards and offline capabilities. The ECB's strategy is cautious yet deliberate, aimed at enhancing monetary sovereignty and strengthening the payments infrastructure of the euro area. The fundamental motivation for making a digital euro is to complement an efficient, resilient, and widely inclusive retail payment system, while upholding public availability of central bank money amidst an increasingly private-platform-centered digital economy.

In contrast to certain international counterparts, the ECB has deliberately avoided employing the digital euro as an instrument for storing value, looking to complement—instead of upending—the current financial ecosystem. In July 2025, the ECB announced a dual-track approach for exploring **wholesale CBDC** solutions, launching two pilot projects: **Pontes** and **Appia**.

- Pontes aims for short-term integration of DLT-based platforms with TARGET services, targeting enhanced settlement efficiency by late Q3 2026.
- Appia focuses on longer-term development of innovative DLT-based financial market infrastructure.

In July 2025, the ECB published its third progress report, confirming that extensive testing has been conducted through its Innovation Platform, involving over 70 participants including banks, fintechs, and retailers, exploring advanced use cases such as conditional payments and programmable money. The ECB also reported that the Innovation Platform has helped refine key technical aspects of the digital euro, particularly around risk management, dispute resolution mechanisms, and the interaction between programmable payments and settlement layers, which will inform the finalization of the digital euro rulebook.

Finally, the European Parliament is currently debating a possible legal framework for the introduction of the digital euro. Meanwhile, EU officials are considering the possibility of the digital euro operating on a public blockchain, such as Ethereum or Solana, instead of a private option, in order to accelerate its adoption and avoid the risk of losing competitiveness.[26]

Relevant facts about China's e-CNY

China is taking the lead globally in CBDCs and cross-border payment networks, as it advances e-CNY, its flagship project. Launched on trial runs since 2019, the digital yuan is being used in 17 provincial areas and now has more than 260 million users of its wallets as well as transactions of more than 7 trillion yuan, up to mid-2024.

In addition to retail, healthcare, and government-service use domestically, e-CNY is also being incorporated in cross-border systems—notably, using the mBridge project, in partnership with the Hong Kong, Thai, UAE, and Saudi Arabian central banks. China will establish an international operation center for e-CNY in Shanghai. These efforts illustrate China's awareness of its dollar dependency. Therefore, decoupling from U.S.-dominated payment systems to gain stronger monetary control within a digital economy, and build effective alternatives to systems such as SWIFT, is a policy imperative. Among the main reasons for the PBoC's strategy is to enhance payment systems efficiency, achieve financial inclusion, build resilience to private payment systems, and pave the way for a multipolar monetary order where e-CNY can be used in international settlements and trade.

Despite the promotion of the e-CNY, private payments systems like Alipay and Tencent remain dominant—so far. This could change swiftly, if the Government so wishes.

Relevant facts about the US debate

The United States has taken a markedly cautious—and increasingly oppositional—approach to CBDCs. Under the Biden administration, several exploratory initiatives were launched, including Project Hamilton and Project Cedar, as well as participation in cross-border experiments like Project Agora, which includes European countries. However, CBDCs became politically polarizing during the 2024 presidential campaign.

> Following Donald Trump's return to office in January 2025, a sweeping executive order was issued halting all federal work on CBDCs,[27] effectively banning the development of a digital dollar.

Despite this, the Federal Reserve Bank of New York remains engaged in Project Agora, a cross-border initiative focused on tokenizing central bank reserves to improve correspondent banking. The main motivations behind the U.S. stance are political concerns over government overreach, strong private-sector alternatives like stablecoins, and a belief that innovation in digital payments can be led by the market without direct issuance of a retail CBDC.

Stablecoins perform poorly as money, failing the essential tests of singleness, elasticity, and integrity, due to the absence of central bank backing, lack of safeguards against illicit use, and inability to support credit creation. Despite legislative initiatives such as the **Genius Act**, stablecoins remain prone to volatility and facilitate criminal activity, posing risks to monetary sovereignty and financial stability.[28] They resemble the 19th-century US free banking.[29]

Preliminary conclusions

The EU is taking a middle road position between the first-mover approach of China and the political reluctance of the United States. The ECB has taken a restrained, institutionally based approach. Now in preparatory phase, the digital euro initiative prioritizes privacy, offline access, and least disruption to the current financial system. Compared with China's e-CNY—which has developed both domestically and internationally with the backing of strategic partnerships—the ECB's path is more incremental but more **consultative in nature** and more directed toward strengthening public trust and monetary sovereignty with the launch of a non-disruptive alternative to commercial bank deposits.

The ECB categorically rules out placing the digital euro in the role of a store of value but aims instead at establishing a stable retail payments infrastructure that supplements rather than replaces the banking system. Whereas China positions its CBDC as a strategic tool within a multipolar monetary system—to embed the e-CNY within cross-border infrastructures such as mBridge—the European initiative is more inward looking with a clear focus on consolidating monetary and digital sovereignty. This can, of course, change in the future.

In an environment in which the dollar as CBDC is politically circumscribed and the Chinese CBDC is issued and managed by non-independent monetary authorities, the **digital euro stands out in terms of governance and institutional framework** —to the extent that the public anchor of a digital payment system is proven both technologically robust and socially acceptable.

6.2 POTENTIAL

The ECB presents the digital euro as a way to "bring the valued features of banknotes into the digital sphere", cut Europe's dependence on international card schemes and big-tech wallets, and open a **pan-European payments and settlement network** that private payment solutions can ride on.

In this sense, a **wholesale digital euro** could enhance the efficiency and liquidity of European capital markets by enabling automatic settlement of tokenised securities, reducing operational risks and costs, and attracting issuance activity into euro-denominated markets. Wholesale CBDCs can facilitate instant, risk-free settlement processes that are critical for modern debt markets.[30]

> Moreover, deploying such solutions early could help Europe establish itself as a standard-setter, securing a first-mover advantage in global financial infrastructure and potentially increasing the euro's role in cross-border capital flows.

Wholesale CBDCs also promise to deliver rapid, secure international transfers while maintaining the fiat nature of central bank money.

Here it is important to clarify that the digital euro should not be viewed as the sole instrument for monetary sovereignty and independence. Supporting private solutions, such as Bizum in Spain and similar platforms across Europe, offers viable alternatives to US-dominated systems. The priority should be **fostering interoperability** among these platforms. However, if the private sector, despite public incentives, cannot deliver interoperability, the case for a digital euro grows stronger. A digital euro would replace today's foreign "chokepoints" with European infrastructure, strengthen the Single Market, and provide tangible benefits such as universal access (online/offline, via app or card), cash-like privacy, capped merchant fees, and scalable service opportunities for banks.[31]

Overall universal **access, inclusion and privacy protection** are key features to be secured. It is worth mentioning, the European Commission's Study on new developments in card-based payment markets. Drawing on the draft Digital Euro Regulation and ECB stakeholder consultations, the report highlights **four strategic objectives**:

01/
Guaranteed access for citizens and businesses, including the unbanked;

02/
Privacy protection comparable with cash;

03/
Greater innovation and competition in retail payments; and

04/
Support for the euro's role and the EU's open strategic autonomy.[32]

6.3 RISKS

Stability is at the center of the risk discussion. The ECB's progress report devotes particular **attention to the threat of large-scale deposit outflows** in the transition phase or during major crises, especially in times of financial stress. The ECB reaffirms that the holding-limit methodology is "one of our key priorities" precisely to "prevent large-scale transfers from bank deposits to digital euro, especially during crises. Nonetheless, developing offline functionalities brings significant operational and **cybersecurity challenges**. These features must rely on secure mobile hardware and seamless integration with merchant systems. Deploying an offline digital euro on secure mobile elements is technically complex and involves many stakeholders; so cyber-resilience must be a design priority.

The other big risk i**s privacy concerns among the public.** While privacy is a central design goal, the project must still convince users that neither the Eurosystem nor intermediaries can trace online payments.

There are also concerns around adoption:
consumer advocates have pointed out that if the user experience is poor or the reverse waterfall mechanism —where a digital euro payment is automatically completed by drawing funds from the user's linked bank account when their digital euro balance is insufficient—is too slow, people may be reluctant to use it. Other issues are the effect on bank liquidity, funding and profitability. For example, it could affect liquidity coverage and net stable funding ratios; impacts would differ across banks and between normal times and crisis.

Another aspect to consider is the **monetary-policy transmission risk.** An overly generous holding limit could weaken banks' credit-creation role; an overly low limit could impair usability, so calibration must balance user needs and policy effectiveness.

Other risks are potential crowding-out or **fee misuse**. Although the compensation model caps fees, co-legislators are urged to install safeguards "to prevent potential abuse and ensure that merchant service charges are reasonable".[34]

RECOMMENDATIONS

01/
Accelerate technical preparation and political consultation on the digital euro and start with pilot testing both on the retail and wholesale front.

02/
Increase international consultation and coordination with other jurisdictions advanced in their CBDCs and take first mover advantage in standards, security, norms and interoperability.

03/
Use the debates around the digital euro to promote the internationalisation of the euro by advancing in the fiscal and capital markets unions to strengthen European monetary sovereignty, as mentioned throughout this paper.

CONCLUSION

The digital euro, in its retail and wholesale form, can help to enhance European monetary sovereignty but without permanent EU bonds its international attractiveness will remain curtailed.

This is our central conclusion. Nonetheless, in an era marked by great power rivalry and the digital revolution, currency dominance will not only be shaped by macroeconomic fundamentals and military power, but also by the provision of monetary and financial infrastructure that is technologically sophisticated, regulatorily resilient and cybersecure. In this regard, vis-à-vis the US embracement of stablecoins, with the risks associated with this move, the EU might be offering a more secure and stable system based on a more profound collaboration and coordination between the public and private sector and with the digital euro at its core.

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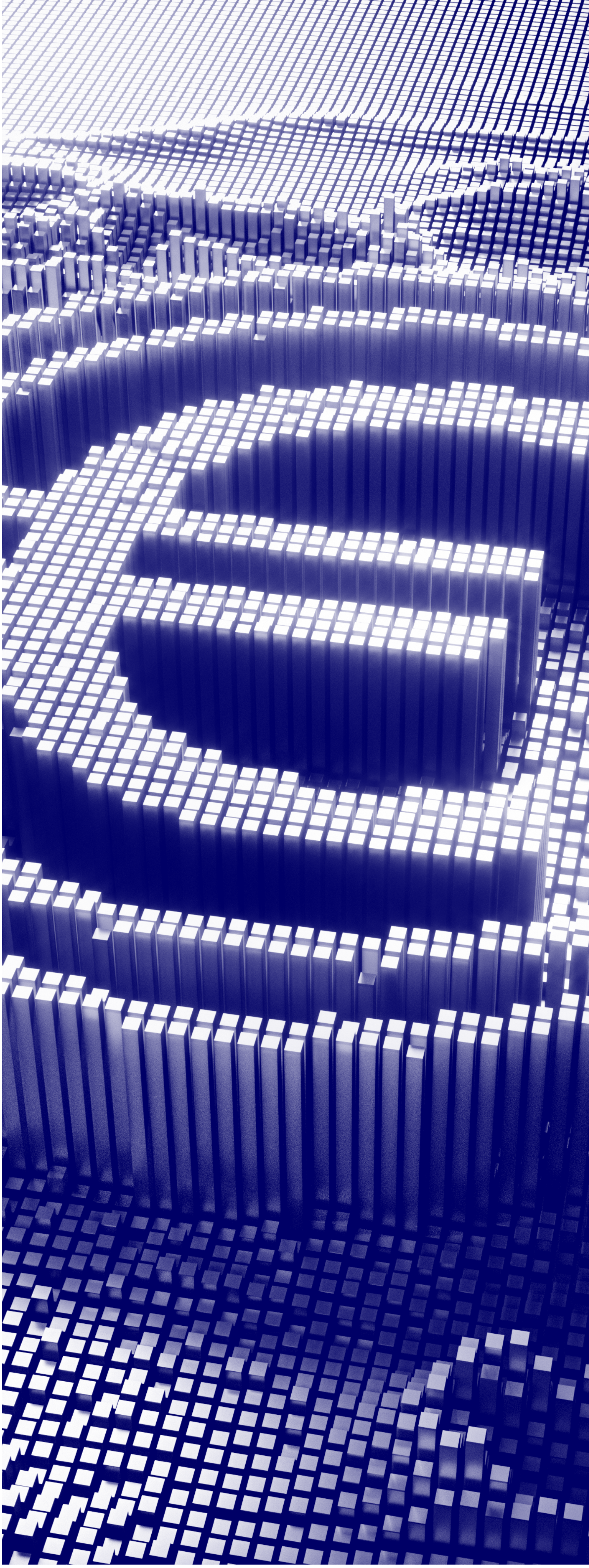

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