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CENTER FOR THE GOVERNANCE OF CHANGE

EUROPEAN MONETARY SOVEREIGNTY IN THE DIGITAL AGE

Policy Brief
Center for the Governance of Change
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EXECUTIVE SUMMARY

The rise of digital currencies and the intensifying great power rivalry has heightened the urgency of securing European monetary sovereignty. In the short and medium term, the United States' leverage of the dollar's dominance will remain central. However, uncertainties stemming from the new American political landscape and the growing rivalry with the Chinese renminbi prompt the EU to expand its strategic autonomy in the monetary domain. Europe remains constrained by financial fragmentation, reliance on US-controlled infrastructure, and insufficient fiscal integration. The digital euro is not only a critical infrastructure for security and independence but also the digital representation of the EU's sovereign currency. As such, in the context of a broad strategic autonomy, the digital euro can reinforce the missing instruments of Europe's monetary sovereignty: joint debt issuance, completion of the banking and capital markets unions and the development of financial muscle comparable to that of other global currencies. Building on ***European Monetary Sovereignty in the Digital Age*** **by Miguel Otero Iglesias, Paola Subacchi and Gonzalo Rodríguez**,[1] this policy brief proposes reforms to leverage the digital euro and reinforce Europe's global relevance in a multipolar financial order across two action pillars.

PILLAR #1

FINANCIAL FOUNDATIONS AND PAYMENT INFRASTRUCTURES

1. Build scale and safe assets
2. Deepen and integrate markets
3. Diversify liquidity and payment infrastructures

PILLAR #2

THE EURO'S INTERNATIONAL ROLE AND THE DIGITAL EURO

1. Strengthen the euro's international attractiveness
2. Accelerate the development of the digital euro
3. Secure legitimacy, political momentum and strategic autonomy

BACKGROUND: THE LIMITS OF THE DIGITAL EURO

The digital euro represents a strategic step toward reducing Europe's dependence on foreign systems and modernizing its monetary framework. In its retail form, the digital euro can ensure interoperability across the euro area, enhance efficiency in settlement and collateral management, and reduce reliance on US-dominated payment networks. Just as importantly, it has the potential to offer citizens and businesses a trusted public alternative to private digital money—designed to complement, not displace, existing private payment solutions—safeguarding universal access to central bank money while reinforcing financial stability and resilience.

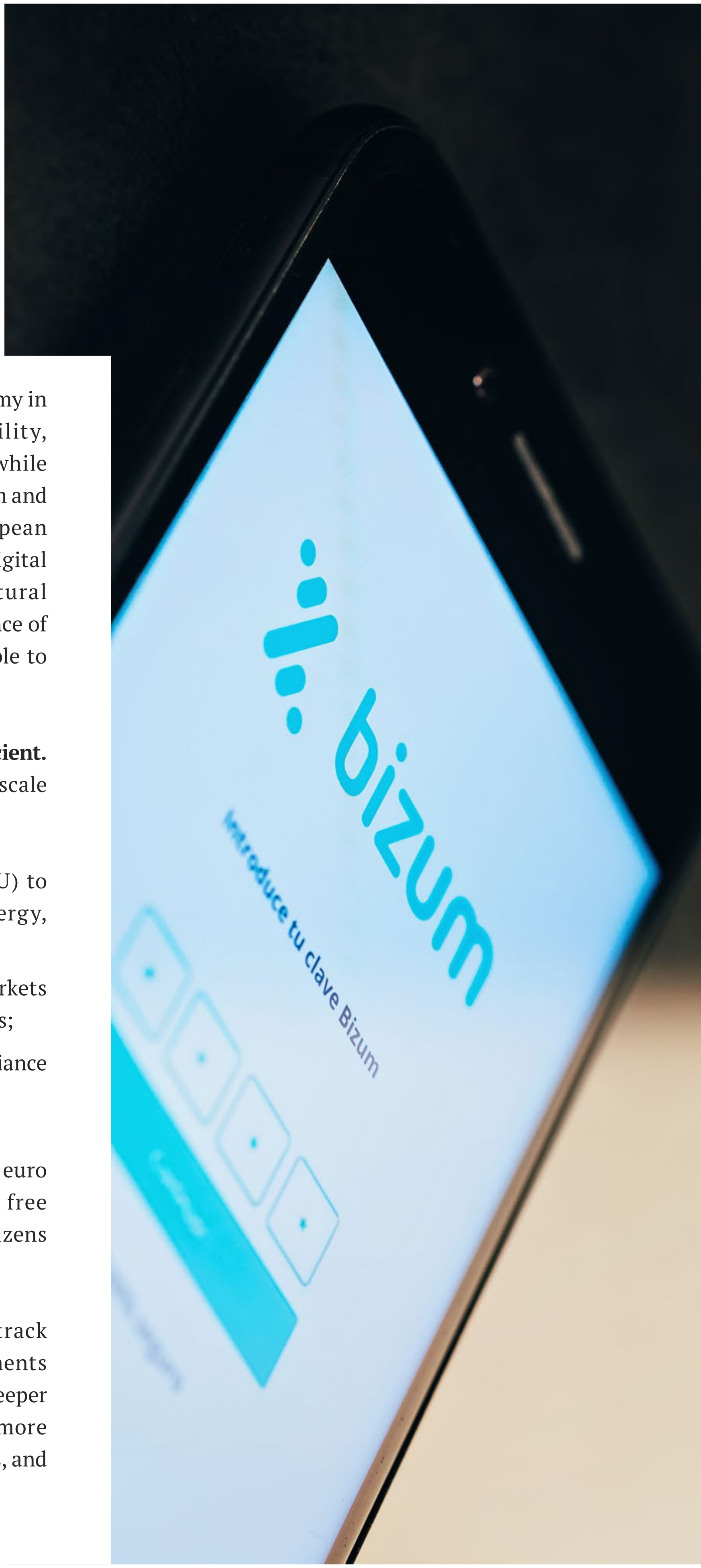
Yet, the digital euro on its own cannot resolve Europe's structural vulnerabilities. Persistent financial fragmentation, the lack of a robust fiscal union, and the absence of a European safe asset comparable to US Treasuries continue to constrain the euro's global role.

> This is the central paradox of the digital euro:
> it can strengthen autonomy in payments, but without structural reforms it cannot elevate the euro into a true international currency.

The question, then, is not whether to move forward—the political consensus in Europe makes adoption almost certain—but how to ensure that it becomes a stepping stone toward broader monetary sovereignty rather than a standalone project.

In the digital age, monetary sovereignty is no longer just a legal competence but a question of power over infrastructure and standards. Global finance is increasingly driven by digital platforms, cross-border data flows, and programmable money. In this context, infrastructures such as SWIFT, CHIPS, and Visa/Mastercard act as instruments of geopolitical leverage, enabling the United States to project extraterritorial sanctions and liquidity control. Meanwhile, China's rollout of the e-CNY illustrates the opposite playbook: deploying central bank digital currencies (CBDCs) as strategic tools to reduce dollar dependence and expand currency influence in trade and settlements.

TOWARDS SOLUTIONS: FROM PAYMENT AUTONOMY TO MONETARY SOVEREIGNTY



The digital euro will strengthen Europe's autonomy in payments—bringing resilience, interoperability, common standards, and a level playing field—while coexisting with private instant schemes like Bizum and broader European initiatives such as the European Payments Initiative (EPI) and EuroPA. But the digital euro alone cannot resolve the euro's structural weakness as an international currency: the absence of a large-scale pan-European safe asset comparable to US Treasuries.

In short, the digital euro is **necessary but not sufficient. Achieving true** monetary sovereignty requires scale and depth:

- a permanent fiscal capacity (extending NGEU) to finance European public goods such as energy, defiance, deep tech and cybersecurity;
- the completion of the banking and capital markets unions to deepen liquidity and mobilize savings;
- and euro-area liquidity backstops that reduce reliance on dollar infrastructures.

Near term, the priority is to finalize the digital euro regulation with guarantees of voluntary use, free access, privacy and offline functionality, so citizens and firms see it as a trusted public good.

Longer term, the EU should follow a twin-track strategy pairing a public, interoperable payments infrastructure with market scale (EU Bonds and deeper capital markets). This would make the euro more internationally attractive, retain European savings, and reduce dependence on dollar safe assets.

PILLAR #1
FINANCIAL FOUNDATIONS AND PAYMENT INFRASTRUCTURES

Europe's monetary sovereignty ultimately rests on the strength of its internal financial system. To this end, action must be taken across three fronts:

01 BUILD SCALE AND SAFE ASSETS

Europe needs depth and trust in its financial system. A pan-European safe asset, stronger capital mobilization, and a digital euro designed to complement—not replace—market reforms are essential foundations.

- Issue, in sufficient volume, a **pan-European sovereign risk-free asset** to complete the banking union and foster cross-border investment.
- Leverage the window of distrust in the dollar to **repatriate European capital** currently invested in the US and accelerate EU bond issuance[2].
- Create a **hybrid strategic investment fund** blending EU-issued bonds with private capital to mobilize resources for innovation—inspired by Draghi's call for joint funding of European public goods and private co-investment[3].

02 DEEPEN AND INTEGRATE MARKETS

Fragmentation prevents the euro from reaching global weight. Completing the banking union, harmonizing rules, and reinforcing TARGET2 can unlock a more unified financial space.

- Complete the **banking union and capital markets union** to foster greater cross-border investment and the creation of pan-European banks.
- **Harmonize** financial regulation, tax policy, bankruptcy law, and infrastructure investment to create the foundations of a global financial center.
- Establish a **"28th business regime"** to overcome the national roadblocks that exist toward harmonization through the enhanced cooperation instrument, starting with initiatives like Spain's Competitiveness Lab and a harmonized credit rating system for SMEs.[4]

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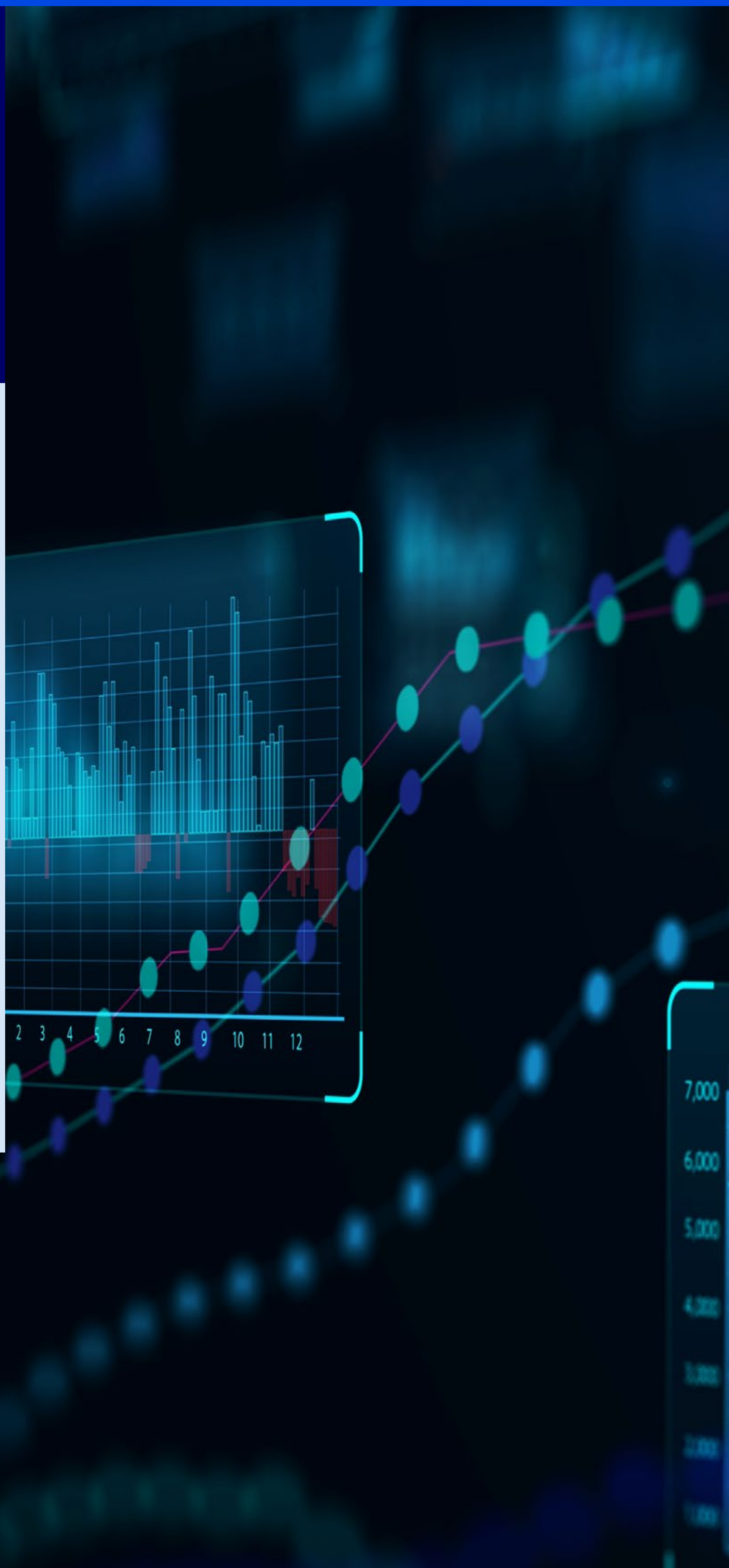
03 DIVERSIFY LIQUIDITY AND PAYMENT INFRASTRUCTURES

Resilience requires alternatives. Expanding euro swap lines, curbing extraterritorial risks, and developing both external and home-grown payment systems will reduce dependence.

- ☑ Scale up **euro-denominated swap agreements** with central banks to diversify global financial safety net away from exclusive dollar and US reliance.
- ☑ Strengthen and expand the **Target2 payments system** uniting mobile payment systems across member states.
- ☑ Monitor **emerging payment systems** outside the EU and US (CIPS, ASEAN LCS) to assess risks to European sovereignty.
- ☑ Support and promote **European-led payment initiatives** that can scale across member states and ensure interoperability, reducing reliance on non-European networks (e. g. EU Wero or and EuroPA).



PILLAR #2
THE EURO'S INTERNATIONAL ROLE AND THE DIGITAL EURO

Europe's global influence hinges on turning monetary autonomy into international weight. The digital euro can accelerate this by positioning Europe as a first mover in global CBDC standards. To this end, action must be taken across three fronts:

01 STRENGTHEN THE EURO'S INTERNATIONAL ATTRACTIVENESS

To rival the dollar, Europe must provide a credible alternative for global investors. Advancing fiscal and market integration, coupled with scaled-up EU bonds directed at common public goods, would anchor the euro as a trusted global currency.

- [x] Expand **euro-denominated swap lines** and develop alternative liquidity frameworks to reduce dollar dependence and vulnerability to US geopolitical leverage.
- [x] Focus EU joint debt issuance on **strategic European public goods** and projects of common interest, given resistance by some member states to a full fiscal union, financing them through EU-level instruments rather than broad fiscal integration.
- [x] Issue **EU bonds** as much as current capacity allows, extending the Next Generation EU model to finance European public goods such as energy networks or deep tech, to offer global investors a credible alternative to US Treasuries.

02 ACCELERATE THE DEVELOPMENT OF THE DIGITAL EURO

The digital euro is central to Europe's monetary future. Its design and deployment must move faster, supported by pilot testing, global coordination, and a strong legal base to ensure resilience and competitiveness.

- [x] Accelerate technical preparation and political consultation on the digital euro and begin **pilot testing** in both retail and wholesale forms.
- [x] Build the digital euro on **a strong European legal framework**, democratically legitimized and flexible in its implementation to prevent political blockages or regulatory rigidities that could hinder innovation.
- [x] Increase **international consultation and coordination** with other jurisdictions advanced in CBDCs, using the opportunity to take first-mover advantage in setting standards, security protocols, norms, and interoperability.

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03 SECURE LEGITIMACY, POLITICAL MOMENTUM AND STRATEGIC AUTONOMY

- [x] Ensure the social legitimacy of the digital euro through **transparent and pedagogical communication** that clearly conveys its benefits and safeguards to both citizens and the European Parliament.
- [x] Use the **political momentum** of the digital euro debate to advance fiscal and capital markets unions, consolidating European monetary sovereignty and strengthening the euro's global role.
- [x] Promote **international legal frameworks** to limit unilateral sanctions, with transparency and multilateral oversight.

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ENDNOTES

1 Otero Iglesias, Miguel, Paola Subacchi, and Gonzalo Rodríguez. 2025. *Geopolitics of the Digital Era Paper 4*. Madrid: Center for the Governance of Change. Policy Paper, September 4.

2 Subacchi, Paola, and Paul van den Noord. 2025. "International Trade Suppression and the Demand for US Treasuries." *VoxEU*, April 11.

3 McCann, Philip, and Jānis Stierna. 2025. *The Draghi Report on the Future of European Competitiveness*. JRC Working Paper Series for a Fair, Innovative and Sustainable Economy 15/2025. European Commission.

4 Jopson, Barney, and Paola Tamma. 2024. "Spain Proposes Mini-Coalitions to Break EU Capital Markets Stalemate." *Financial Times*, October 7.

This policy brief was produced within the framework of the Center for the Governance of Change's research program *The Digital Revolution and the New Social Contract*, and in particular its third work package, which studies the geopolitics of the digital era, and how the technological race is changing the power relations between states and between states and companies.

It is based on the fourth policy paper of the package:
Otero Iglesias, Miguel, Paola Subacchi, and Gonzalo Rodríguez, *Geopolitics of the Digital Era,* IE CGC, September 2025

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