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The Digital Euro and Monetary Credibility

The European Central Bank needs to be the public anchor for all euros, including retail and wholesale digital currency. Abandoning a retail version would be a mistake. The European Union needs to protect the euro's credibility and can do this best if there is no void in the financial architecture.

Why does Europe need a digital euro? Supporters of the plan offer various rationales. These include independence from American payment providers, security in case those American providers cut off access, the convenience of digital cash now that notes and coins are used less (European Central Bank [ECB], 2024), and offline sales. But there is a bigger and better reason: monetary sovereignty and the credibility of the euro itself.

The ECB needs to be the anchor for all euros, digital included. The European Union should not take the risk that a public void triggers the development by the private sector of something that catches on and becomes widespread, then collapses and threatens financial stability. In other words, the EU cannot afford *not* to have a digital euro.

Figuring out what that means and how to bring it into being is now a central policy challenge. The project has split into two diverging tracks. "Digital euro" mostly refers to the retail project, now advancing in legislation proposed by the European Commission in 2023 and currently debated by member states and the European Parliament. Meanwhile, work on a "wholesale" digital euro has morphed into a conversation about the increasing use of distributed ledger technology (DLT), tokenised settlement and how to link the ECB's payment rails to private-sector projects. Talk of a wholesale digital euro has now transformed into a near-term Pontes[1] settlement initiative and a longer-term Appia[2] effort to ensure central bank money and collateral services remain properly linked with the rest of the financial system.

1 https://www.ecb.europa.eu/paym/target/pontes/html/index.en.html
2 https://www.ecb.europa.eu/paym/dlt/appia/html/index.en.html

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This split was initially driven by process: the ECB is empowered to work independently on the wholesale side, while the retail project must go through the EU's co-legislative procedures. Unfortunately, some political stakeholders have now begun to pit the two projects against each other.

In 2026, the ECB discusses the proposals in separate terms, and MEP Fernando Navarrete Rojas, the European Parliament's legislative rapporteur, has suggested that the retail product is not necessary and should be shelved to devote more attention to back-end settlement. In the November 2025 draft report from the Economic and Monetary Affairs Committee, lawmakers suggest that "the Union should prioritise the development and cross-border interoperability of wholesale CBDC [central bank digital currency] arrangements" (Navarrete Rojas, 2025, p. 14).

Dividing up the digital euro space in this way poses financial stability risks. The euro area already faces many legacy fragmentation issues. Creating more divides conceptually adds to the sense that the EU's monetary union is still not fully joined up, which in turn leaves room for market actors to exploit the seams in ways that could lead to future crises.

Credibility and central bank digital currencies

Digital euro conversations did not start out in this way. Initially, the ECB was spurred into action after Facebook's 2019 proposal for a digital "currency" called Libra.[3] This project was put forward ten years after the debut of Bitcoin, the cryptoasset that introduced the world to the concept of "cryptocurrency" and put distributed ledger settlement, also called the blockchain, on the world stage. Bitcoin's travails, including the 2014 collapse of the Mt. Gox exchange, had shown that the biggest downside to new forms of payment and value storage was the lack of access to central bank systems. The Facebook plan

3 The Libra project is no longer under discussion as initially put forward, and the primary documents are no longer online in their original locations. Summaries of the initial proposal can be found in the news media, for example "Facebook Unveils Libra Cryptocurrency, Sets Launch For 2020", 18 June 2019, https://www.npr.org/2019/06/18/733701971/facebook-unveils-libra-cryptocurrency-sets-launch-for-2020.

sought to bridge this gap by proposing a privately managed asset that would be pegged to a basket of world currencies, not just the US dollar, with proposed input from central bankers but without direct central bank ties.

In response, the world's central banks realised they needed to take control of the space. This launched the debate over CBDCs, which more than 100 monetary authorities began studying, and a few, such as the Bahamas,[4] quickly put into practice. The Group of Seven major economies sprang into action – in 2020, through the Bank for International Settlements (BIS), the G7 central banks, Sweden and Switzerland put forward "foundational principles and core features" of a CBDC (BIS, 2020), and in 2021 the G7 followed up with a statement[5] emphasising the need for standards and coordination.

This discussion was particularly important for the ECB, which had just weathered the 2010-2015 euro area crisis, in which five members of the monetary union had sought rescue assistance and Greece had needed multiple rounds of aid. The crisis revealed that investors did not always want to do due diligence on which parts of the EU system were healthier than others. In good times, they wanted to invest across the euro area, and when times were tough, they ran en masse. While national fiscal authorities faced the bulk of the scepticism, the ECB was drawn in as the crisis dragged on. At its low point, markets were tracking the use of Emergency Liquidity Authority to Greek banks as a marker of how the entire euro area was faring – not just the banks that this assistance was propping up – forcing the ECB to make this information publicly available for the first time.[6]

Policymakers such as former executive board member Benoit Cœuré spoke of a digital euro in broad and comprehensive strokes. In a 2021 speech, he laid out the project's importance across the financial sector: "Big techs are expanding their footprint in retail payments. Stablecoins are knocking on the door, seeking regulatory approval. Decentralised finance (DeFi) platforms are challenging traditional financial intermediation. They all come with different regulatory questions, which need fast and consistent answers" (Cœuré, 2021).

Stablecoins – digital assets that are backed by reserves in order to have a pegged value against a major sovereign currency – are these days discussed in single-currency terms, given the predominance of dollar-denominated products and the Trump Administration's interest in seeing these assets promote dollarisation abroad. Recognition of this more weaponised dollar stance, alongside fears that a CBDC could disintermediate the banks that still form the backbone of European financial markets, has changed the debate and encouraged more divided positioning.

In part due to heavy bank lobbying and in part due to the procedural differences in pursuing wholesale and retail options, the ECB's rhetoric has shifted. ECB Executive Board member Piero Cipollone began speaking of the ECB's existing Target 2 settlement system as an already extant wholesale digital euro (Cipollone, 2025), and now the conversation dwells more on tokenisation and the DLT settlement, setting the CBDC terminology aside, with ECB officials stressing integration as the overarching goal (Vlassopoulos, 2025).

Meanwhile supporters have struggled to make the case for the retail digital euro, perhaps because financial credibility is hard to explain to the general public. Other rationales, like smoother payments and an alternative to US card giants, may seem less pressing in an age of instant bank transfers and ready online transactions.

Scholars still recognise the digital euro holistically as a public good (Berg et al., 2026). This discussion highlights the potential of offline payments as well as policymakers' efforts to ensure banks remain central to retail digital euro use and management. A retail digital currency would need to support the existing financial system instead of undermining it, and debates about holding limits and transaction mechanics have so far been sensitive to and pragmatic about these concerns.

Fragmentation and financial stability

Separating the digital euro strands is tempting given the complexity of the policy process and the need to make sure the ECB's settlement rails keep up with the times. However, allowing consumer payments to fall out of the framework entirely would be a mistake. The retail digital euro does not need to fully replace cash transactions and Single Euro Payments Area (SEPA) transfers, nor should it. Even if it is not widely used, its existence is still important. The ECB needs to be very clear about what money is "public money", direct from the central bank, and what is not. That means having a foothold in every financial and monetary space.

Forthcoming research by Lucrezia Reichlin, Bo Sangers and Jeromin Zettelmeyer distills the stakes into four key principles: first, making public money the final anchor of transaction set-

4 The Sand Dollar was launched in 2020 and remains available as a digital version of the official currency of the Bahamas, see https://www.sanddollar.bs/.

5 G7 Finance Ministers and Central Bank Governors' Statement on Central Bank Digital Currencies (CBDCs) and Digital Payments, 13 October 2021, https://assets.publishing.service.gov.uk/media/616754d2d3bf7f56080b1abf/FINAL_G7_Statement_on_Digital_Payments_13.10.21.pdf.

6 See the ECB's September 2015 statement, "The Governing Council of the European Central Bank has decided that national central banks will from now on have the option to communicate publicly about the provision of Emergency Liquidity Assistance (ELA) to the banks in their country, in cases where they deem that such communication is necessary." https://www.ecb.europa.eu/press/pr/date/2015/html/pr150916.en.html

tlements; second, keeping credit intermediation within supervised institutions; third, a need for interoperability across digital platforms; and fourth, making euro-denominated liquidity available wherever digital markets coalesce. The last of these principles invites important conversations about whether the central bank should work directly with stablecoin providers or license them in a way that allows for limited lender-of-last-resort access; these will be important debates to have in the months and years ahead.

Public money as a final settlement anchor should not, however, be taken for granted. Turning retail digital currency into a separate policy debate increases the risk that a retail currency will not happen at all. It is one thing for the ECB and legislators to take their time figuring out how they will proceed, it would be another thing entirely if the project died outright and created a vacuum in the digital currency space.

If an ECB-backed digital euro stops being on the table, a private-sector actor could create a similar product that might act a lot like a *de facto* CBDC but be vulnerable because of course it would not be central bank backed and might not connect to central bank supporting infrastructure. And in the event this product became widely used and then failed, global investors might once again judge the entire euro by the worst performance of its parts, rather than consider how an ersatz digital euro is not a real digital euro and fine tune their response accordingly.

These types of unlikely but extreme turns of events reflect the euro's relative youth as a currency and therefore its outsized need to prioritise credibility in its own right. An analysis of Italian policies and Italian-German bond spreads bears this out: in a study spanning five administrations, spreads were worst when governments embraced anti-European sentiments (Cadamuro & Papadia, 2022). The perception itself of fragmentation was spooking investors.

Worst-case scenarios

In a worst-case scenario, hiccups in the privately managed digital asset space could spill over into the ECB system and threaten the euro area's overall soundness. If central bank money is marginalised, through the rise of electronic payments or by some other factor that diminishes links between public and private money in the euro area, financial stability would be weakened (Bindseil & Cipollone, 2025).

The European Systemic Risk Board (ESRB), which includes the ECB and other EU financial authorities within and outside the euro area, framed the problem accordingly: "growing interlinkages between traditional finance and crypto, coupled with high market concentration in core crypto services, increase the contagion risk for traditional finance" (ESRB, 2025).

The ESRB has so far focused on the risk of cross-border glitches, driven by different regulatory requirements in the US, the EU and other jurisdictions. The board's recent recommendations on stablecoins focus on the risk of "multi-issuance" stablecoins, where reserves for the digital asset are held in multiple jurisdictions. If things were to go wrong in that situation, the reserves could end up in a different part of the world than the assets themselves, and therefore be unavailable in a crisis, sparking a run, a market failure and possible contagion.

There are other ways a stablecoin could cause a crisis even without cross-border disruptions. For example, a private-sector stablecoin becoming the market default and then stumbling could trigger renewed fear of a euro area breakup. This could be because of imbalances in the sovereign bonds held as backing assets, alarming investors about diverging credit risk among euro area countries. Or a more general run could be prompted by breaking a peg, in the same way that failing money-market funds have set off crises before.

Other factors not yet on the radar could also arise, for stablecoins or for tokenised deposits. While the latter would be more closely tied to the banking system, they could introduce operational risks, particularly if financial institutions do a poor job of building interoperable systems.

The ECB will surely monitor these risks. But it will be better able to prevent and contain them if it already occupies all the spaces in the senior digital currency environment. This means a wholesale digital euro for cross-border payment and settlement and a retail version for everyday use – with the main reason for this distinction being process, not a difference in need. The ECB can introduce a wholesale version by itself, while retail money requires EU legislation alongside central bank planning (ECB, 2025a).

International stakes

In progressing to the digital euro, the EU should think broadly about how it protects monetary sovereignty. With sufficient investor confidence, the euro can maintain its status as a reliable store of value, unit of account and means of payment. This, in turn, will position the euro to expand its international role.

Even a weak dollar is still the global reference point, because financial plumbing is more important than comparative value when it comes to managing foreign reserves. To the extent that global central banks seek to protect themselves from US political risk, they buy gold (Partington, 2026) or consult with the Fed (Yokoyama & Fujioka, 2026), rather than making big moves into other currencies. For now, the stablecoin market

is more than 99% dollar denominated,[7] and any deterioration of euro area payment rails will encourage global use of the US currency.

After the euro crisis, it took time and huge amounts of rescue money for the world to once again see the euro area as a thriving monetary union. The EU should build out its financial infrastructure to hold on to those gains. The retail and wholesale digital euro alike are vital to that process.

Putting things in perspective

The euro is still young. It is not rooted in a common fiscal policy, a full-fledged bank deposit insurance system or a permanent deep and liquid safe asset. Mostly, investors appreciate the euro area's many accomplishments. But there have been times – the 2010-2015 crisis period (Pisani-Ferry, 2014), for example – when the currency's inherent fragmentation has become a significant vulnerability. Rather than weighing whether, say, an Italian bond is as good as one from Cyprus, or what the spread between Estonia and Germany should be, investors just ran.

The United States has more room for manoeuvre because the dollar is the world's dominant currency and there is more integration at home. If a startup or an emerging-market country ruins itself using dollars, that company or country's poor management gets the blame. Fingers are not pointed at the dollar or the Federal Reserve.

But if the same happens to a euro-using company or country, the repercussions could be felt by the euro itself. It all boils down to credibility. If there is a digital euro, it will be easier for the ECB to differentiate between its own integrity and market ventures, and thus to defend the currency while letting market discipline run its course.

This credibility is the heart of the digital euro's relevance. To the extent a retail digital euro lessens reliance on Visa and Mastercard, its financial stability importance rests inside of this larger question of what the euro is and how much the ECB anchors. Monetary sovereignty includes payment sovereignty but should not be reduced to whose network provides the backbone for everyday commerce.

Supporters of the digital euro often argue the EU needs a homegrown alternative to US payment giants to assure payment sovereignty. This argument has not convinced the sceptics. Opponents say the private sector is capable of generating more options to meet demand (e.g. Navarrete, 2015), and they note that the EU already has a strong bank-transfer protocol and widely available instant payments.

Furthermore, in the unlikely event of Washington moving to cut off access to the card networks, many other things would likely have already gone wrong, including the fracturing of NATO and an end to decades of security cooperation. In that context, having to pay with cash or direct bank debit would be a manageable problem.

It might be nice to have a European payments provider on the same scale as US giants – the EU needs more growth and innovation, and a new product could create jobs and other economic opportunities. It would also insulate the EU from Mastercard and Visa running into trouble, political, operational or otherwise.

All that said, Europe has enough payment options to manage without them if it really needed to. It does not, however, have a backstop for credibility.

7 According to the ECB, dollar-denominated stablecoin issuance totaled more than €280 billion through November 2025, compared to about €395 million. See ECB (2025b).

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