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Anchoring Europe's Monetary Future: Why a Wholesale Digital Euro Is the Immediate Priority

Dollar-denominated stablecoins are expanding rapidly. For Europe, this is not merely a technological development. The deeper question is strategic: who controls the infrastructure through which money circulates? Even where prices, contracts and accounting remain denominated in euro, a growing share of transactions may be executed on dollar-based digital rails, thereby reducing the effectiveness of ECB monetary policy and weakening one of the institutional foundations on which Europe's longer-term growth increasingly depends. This article argues that dollar stablecoins are best understood as "Eurodollars on steroids": a programmable and scalable extension of the offshore dollar system. It identifies three risks for the Economic and Monetary Union: leakage of liquidity and activity from euro monetary circuits, indirect support for US fiscal power, and new forms of fragility arising from reserve opacity and redemption risk. The article further contends that a wholesale CBDC could mitigate some of the EMU's structural constraints and provide catalytic infrastructure for scalable euro-denominated stablecoins, with the potential to become the most trustworthy in the world. By contrast, retail CBDC addresses the wrong battlefield: Europe's central vulnerability lies not in payments at the till, but in the deeper monetary architecture that will shape its future monetary sovereignty.

Over the past decade, dollar-denominated stablecoins have added a new private settlement layer to the international monetary system. In what follows, "stablecoins" means fiat-referenced, reserve-backed tokens (not algorithmic designs), which dominate today's market. By combining the denomination of traditional fiat money with the affordances of distributed-ledger technology (DLT) finance, these instruments extend the reach of the US dollar into cross-border payments, asset tokenisation, decentralised finance and, increasingly, retail-adjacent applications. What began as an internal liquidity device for crypto-asset markets is now transforming into a globally scalable payment and settlement infrastructure.

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For the euro area, this development raises a structural rather than a technological question: how does the expansion of large dollar-stablecoin arrangements reshape the external monetary constraints of the Economic and Monetary Union (EMU), and how can a digital euro mitigate these pressures within the European Central Bank's (ECB) monetary sphere? Put plainly, if the fastest-growing tokenised payment and collateral circuits settle in dollars, the euro can remain the unit of account in the EMU while losing influence over the infrastructure where transactions actually clear.

The central claim of this article is not that a wholesale central bank digital currency (CBDC) is desirable in the abstract, nor that it represents a technologically superior form of digital money. Rather, it argues that a wholesale digital euro becomes *strategically unavoidable* as a response to the emerging form of digital monetary dependence. In this setting, anchoring euro-denominated digital money directly in central bank liabilities addresses a binding macro-monetary constraint faced by the EMU in the digital era.

The analysis proceeds in five steps. First, it places stablecoins in the monetary hierarchy and shows how DLT settlement revives a digital impossible trinity for the

EMU. Second, it argues that dollar stablecoins extend the Eurodollar logic, generating monetary-base leakage and an indirect channel of US public debt finance. Third, it adds an informational externality: by making private liabilities frictionless to use at scale, stablecoins expose users to asymmetric information about reserve quality and redemption risk – shifting liquidity towards fragile structures and amplifying confidence-sensitive run and spillover dynamics. Taken together, these mechanisms amount to a triple set of externalities that remain only partially recognised in the stablecoin and CBDC literature. Fourth, it situates these dynamics in a comparative geoeconomic perspective, contrasting Europe's rule-based approach with the United States' market-led strategy and China's state-centred approach – and argues that Europe currently exports regulatory standards while importing monetary dependence. Fifth, it shows why the EMU's institutional constraints – safe asset scarcity, fiscal fragmentation and Markets in Crypto-Assets Regulation's (MiCAR) no-yield rule – impede a competitive euro-stablecoin market adjustment. Finally, the article concludes by outlining why a wholesale digital euro is the most feasible second-best response: it is a public settlement anchor that catalyses euro-denominated private digital money to scale under supervision.

Digital money in the monetary hierarchy and the EMU's monetary dependence

Debates on digital money often conflate instant payment systems, private stablecoins and CBDCs. Instant payment platforms, such as TARGET Instant Payment Settlement (TIPS) or SEPA Instant, accelerate the settlement of existing bank money transfers but do not create new underlying monetary instruments. Stablecoins and CBDCs are fundamentally different: they are native digital liabilities transferable on DLT infrastructures without recourse to traditional clearing arrangements.

Modern monetary systems rely on a hierarchical architecture in which central bank money anchors private money creation. Following Goodhart's (1998) distinction between the unit of account and the instruments that perform means-of-payment and store-of-value functions, the euro remains a public construct anchoring contracts, taxes and wages. What is at stake is control over the liabilities denominated in that unit of account. Monetary homogeneity is preserved because heterogeneous claims – banknotes, commercial-bank deposits, settlement balances – circulate interchangeably at par. This "singleness of money" is sustained by a supporting institutional framework encompassing regulation, supervision, lender-of-last-resort facilities and access to central bank settlement.

Stablecoins occupy an ambiguous position within this hierarchy. They can replicate the user experience of bank money, yet they remain private liabilities *outside* the lender-of-last-resort backstop that sustains par convertibility in the traditional system. When widely accepted and redeemable at predictable rates, they can therefore perform money-like functions. When denominated in a foreign unit of account, moreover, they graft an external layer onto domestic payment systems. In practice, tokenised trade, collateral and payments can default to dollar rails even inside the euro area. That shifts "where money lives" from the unit of account to the settlement layer. Over time, this can erode the euro's role as the operative anchor in key segments of the digital payments landscape, giving rise to a novel form of *monetary dependence*.

The consequences of this dependence can be understood through a digital reinterpretation of the classic impossible trinity (Mundell, 1963). DLT settlement with stablecoins materially lowers cross-border transaction frictions, intensifying effective capital mobility for tokenised assets; par redeemability creates a functional "fixed-rate" property within these rails. Once dollar-denominated stablecoins import a foreign currency directly into payment chains, the EMU faces a sharper trade-off in pursuing monetary sovereignty. It must either constrain digital capital mobility – an implausible option for an economy embedded in international trade and finance – or accept a progressive erosion of monetary autonomy, with direct implications for macroeconomic stabilisation and long-term growth. The least distortionary response is therefore to scale credible euro-denominated stable values that can operate natively in these digital markets. In principle, private issuance could supply that layer. Yet in the absence of a unified federal AAA debt market and a deep pool of euro-denominated safe assets, a system of private innovation is bound to struggle to scale. A public settlement asset is therefore required to catalyse a competitive euro-stablecoin ecosystem.

This mechanism is central to understanding why dollar-denominated stablecoins matter for the EMU even when their initial use cases appear niche. Once settlement migrates to foreign-denominated digital instruments, the absence of a euro-denominated public anchor becomes binding – a constraint that a wholesale digital euro is uniquely positioned to address by re-grounding digital settlement in central bank money.

Before turning to the externalities and the geoeconomic stakes, the next section reviews what the literature explains about stablecoin design, stability and policy trade-offs – and what it still misses.

Stablecoins in the literature: Insights and blind spots

Despite their central role in crypto markets, the academic literature on stablecoins remains thin. Bibliometric evidence suggests that while thousands of articles examine cryptocurrencies broadly, only a few dozen analyse stablecoins as monetary instruments (Dionysopoulos & Urquhart, 2024). Three strands can nevertheless be identified.

The first strand examines how stablecoins interact with the wider crypto ecosystem, asking whether returns, trading volumes and volatility co-move across tokens and how shocks propagate (Grobys et al., 2021; Kristoufek, 2021; Lyons & Viswanath-Natraj, 2023). A related debate asks whether issuance has been used strategically to influence crypto prices (Griffin & Shams, 2020; Wei, 2018; Kristoufek, 2021).

The second cluster examines the very attribute that gives stablecoins their name: stability. Early work asks whether pegged tokens can serve as a safe parking place in stress (Bullmann et al., 2019; Lyons & Viswanath-Natraj, 2023). Empirical evidence shows that major fiat-backed stablecoins typically maintain tight pegs in normal times but can exhibit non-negligible deviations under stress, underscoring that stability is contingent on institutional design rather than inherent (Hoang & Baur, 2021; Jarno & Kołodziejczyk, 2021). Later studies use stress episodes – most notably Terra-Luna and the failure of the Silicon Valley Bank – to compare how different designs perform under pressure (Lee et al., 2023; Galati & Capalbo, 2024).

A central insight is that design features that support the peg in normal times can raise fragility in stress. d'Avernas et al. (2022) highlight time-inconsistency problems that become acute in algorithmic arrangements. Ma et al. (2025) show a trade-off: centralised arbitrage can keep the peg tight day-to-day, but it can also make runs sharper once confidence breaks, because a small set of intermediaries can keep the price near par at first, muting early warning signals and forcing the adjustment to arrive abruptly later. Consistent with this, prices and yields in stablecoin-based markets often react quickly to macro news despite blockchain frictions (Gorton et al., 2025; Ranaldo et al., 2024), while devaluation and run risk remain tied to backing quality and issuer credibility (Eichengreen et al., 2025).

A related line of macro-financial work links stablecoins to traditional short-term funding markets and monetary policy transmission. Barthélémy et al. (2026) document that large stablecoin reserve allocations generate additional demand for US dollar commercial paper, and they show that commercial paper issuers accommodate this demand by issuing more, linking stablecoin growth to real-economy financing and financial-stability considerations. Aldasoro et al. (2025) add that stablecoin market capitalisation reacts to crypto shocks while MMF assets do not, and that US monetary tightening moves prime MMF assets and stablecoins in opposite directions.

The third cluster considers the role of stablecoins in central bank and policy work alongside CBDC debates, including implications for deposits, payment systems and monetary policy transmission, and comparisons between public CBDC solutions and private tokenised monies (Bullmann et al., 2019; Arner et al., 2020; Gorton & Zhang, 2021; Ahmed et al., 2024). Work on CBDC geoeconomics remains more limited: Quaglia and Verdun (2025) document how sovereignty and infrastructure autonomy increasingly frame the digital euro debate, while Lin and Mayer (2025) formalise a strategic timing logic wherein delayed public digitisation can allow private digital monies to entrench and weaken sovereign currency roles, implying that postponing wholesale settlement risks locking in a foreign anchor before a euro alternative can scale.

By contrast, what remains largely absent from the literature is an industrial-organisation perspective on competition between digital currencies. This omission matters because stablecoins sit uneasily with the assumptions of classical monetary theory. Standard money-demand and money-supply models treat money as an issuer-neutral, homogeneous good: as long as par convertibility holds, agents are assumed to be indifferent between different forms of bank money claims denominated in legal tender.

Stablecoins violate this presumption. They are privately coined liabilities whose issuers compete through product differentiation along economically meaningful dimensions, including reserve transparency, governance, settlement speed, yield pass-through and currency denomination. These differences are not incidental; they shape usage patterns, market segmentation and the geographic clustering of crypto-asset activities. Under asymmetric information, stablecoin markets can then generate allocative inefficiencies even when individual users behave rationally.

Market concentration makes this particularly visible. Over 80% of the global stablecoin market is accounted for by two issuers, USDT and USDC – nominally homogeneous, dollar-denominated instruments that nevertheless differ markedly in transparency and reserve disclosure. A striking empirical regularity is that the less transparent coin, USDT, exhibits more frequent and larger peg deviations

yet dominates transactional use, while the more transparent coin is disproportionately held as a short-term store of value (Lyons & Viswanath-Natraj, 2023). This pattern underscores that stablecoins function less like uniform monetary instruments and more like differentiated financial products competing across distinct use cases.

That gap in the literature is particularly salient in the European context. In the euro area, regulatory harmonisation under MiCAR coexists with nationally based supervision, where authorisation by a national competent authority grants crypto-assets and their service providers an EU-wide passport. Together with the uneven geographic concentration of regulatory, legal and compliance expertise, this institutional setup shapes competitive outcomes in digital money markets. Yet these features are rarely incorporated into existing analyses. Most contributions instead treat the euro area as a generic jurisdiction, offering limited insight into how EMU's structural asymmetries condition the equilibrium effects of euro-denominated stablecoin expansion.

The takeaway is that the existing policy-oriented literature emphasises monetary sovereignty and control over financial infrastructures, but offers limited guidance on how dollar-denominated stablecoins generate fiscal, monetary and informational externalities under asymmetric institutional regimes. It devotes relatively little attention to how issuer competition, market concentration, and platform-based usage patterns shape these spillovers, or to which policy instruments remain available to the euro area when market-based adjustment is institutionally constrained. Against this background, this article examines the role of a wholesale digital euro as a strategically coherent response to digital monetary dependence under the EMU's institutional constraints.

Stablecoins: Eurodollars on steroids

The tension between public monetary control and private liquidity innovation is not new. The expansion of Eurodollar markets in the 1960s already created offshore dollar liquidity beyond the Federal Reserve's direct jurisdiction. Eurodollars operated primarily within a professional banking system and along a wholesale vector, reinforcing US monetary dominance while generating systemic vulnerabilities (Mehrling, 2022).

Dollar-denominated stablecoins represent a digital successor to this system. Like Eurodollars, stablecoins are privately issued, foreign-based liabilities denominated in US dollars outside of American lender-of-last-resort support. Unlike Eurodollars, however, they settle *instantly* on programmable infrastructures and increasingly reach beyond wholesale finance into retail-adjacent applications across decentralised platforms, trade finance applications and cross-border payment networks. In short, they amplify Eurodollar-style systemic risk through scale, speed and a broader user base.

The trinity of externalities confronting the EMU

Dollar-denominated stablecoins generate a triple set of externalities for the EMU. In economic theory, externalities – costs or benefits not reflected in market outcomes – justify regulatory and other public policy intervention, particularly when they distort resource allocation, create market failures or undermine macroeconomic stability.

The first one mentioned earlier is the monetary-base leakage. When trade finance, collateral and payment settlements migrate onto dollar stablecoin rails, monetary autonomy erodes not through the exchange rate, but through the settlement infrastructure and the private balance sheets that intermediate it. The euro may remain the unit of account, yet dollar-denominated settlement embeds US liquidity conditions in the plumbing of European transactions, which narrows the ECB's room for manoeuvre and, over time, weighs on growth.

Second, on the fiscal side, the reserve assets backing large dollar stablecoins are predominantly held in US Treasury bills and related short-term dollar instruments. This means that when European users and firms adopt dollar stablecoins for payment settlement and collateral, a part of their cash-like balances is effectively channeled into US government financing via reserve investment – an externality that replicates, and potentially amplifies, the Eurodollar-era spillovers (Afonso et al., 2024).

Third, stablecoin expansion exposes relatively uninformed users to private currencies that lack the institutional safeguards associated with central bank money. Moreover, the technological ease of use of these stablecoins in large networks obscures underlying differences in risk, reserve quality and institutional backing, making money-like instruments appear more homogeneous than they actually are. "A dollar is a dollar", but under asymmetric information about reserve quality, this opacity can distort usage patterns. Transactional activity becomes biased towards lower-transparency coins, while higher-transparency issuers absorb balance accumulation and associated maturity mismatch. This allocation is individually rational given users' beliefs, but socially inefficient: it reallocates liquidity towards more fragile structures and amplifies confidence-sensitive dynamics, increasing the risk of destabilising runs and spillovers into the broader financial system.

This raises a fundamental question for monetary economics: how should stablecoins be regulated once issuer heterogeneity becomes economically salient? The answer is not only microprudential. If payments and collateral increasingly settle on foreign-denominated rails, institutional design becomes decisive: the access rules, backstop and governance of the settlement layer. These choices shape the geoeconomic distribution of monetary power, even when individual issuers meet high supervisory standards.

Digital money as geoeconomic strategy

Regulators have embraced DLT at markedly different speeds and for different reasons, shaped primarily by divergent geoeconomic and geopolitical interests related to monetary sovereignty, the strategic autonomy of financial market infrastructures, and international influence. As a result, regulatory rulebooks now diverge sharply across jurisdictions.

The United States has embraced privately issued dollar-denominated stablecoins, while political and legislative momentum has shifted decisively against the introduction of a US CBDC. Recent legislative initiatives consolidate stablecoins as a Treasury-adjacent liquidity layer.

From a geoeconomic perspective, this design extends US monetary influence globally while fiscal benefits accrue domestically through sustained demand for Treasury securities – precisely the externality the euro area must now confront. The absence of a CBDC thus reflects a strategic policy orientation rather than a technological constraint: it supports low-cost, market-based financing of US public debt while keeping stablecoins outside the perimeter of central bank money and the Federal Reserve's lender-of-last-resort safety net, thereby deflecting credit and liquidity risks to global users and markets.

China's approach is best read as bifurcated. Domestically, a retail CBDC (e-CNY) modernises retail payments while preserving state control and capital account restrictions, thereby preventing arbitrage or leakage into the financing of foreign-currency (US) debt. Offshore, Hong Kong is emerging as a tightly regulated experimentation venue for fiat-referenced stablecoins under a "one country, two systems" framework via a dedicated licensing regime. This regulated proximity organises the ability to monitor institutional and market interactions between public digital money and private stablecoin infrastructures.

From a geoeconomic perspective, this configuration also serves a clear strategic purpose. By permitting fiat-backed stablecoins to operate under Hong Kong's supervisory umbrella, China creates a regulated venue where such fiat liquidity can accumulate in a jurisdiction politically connected to the mainland. The result is a monetary architecture with renminbi centrality at home and a supervised offshore arena for foreign currency-linked token settlement. This arrangement keeps offshore token activity institutionally close to mainland-linked authorities and state-connected financial actors, creating information advantages and strategic optionality without implying legal control over private reserve assets.

Together, these choices may strengthen China's international monetary position while preserving sovereign control, and lay the groundwork for a more assertive role in future currency and geopolitical competition.

The European Union has prioritised the swift development of a comprehensive framework rather than experiments with monetary instruments. Regulation (EU) 2023/1114 – better known as the MiCA Regulation or MiCAR – created the most detailed rulebook globally and subjects every issuer or crypto service provider that targets EU users to the same capital, governance and transparency tests imposed on electronic money institutions. It requires full reserve backing, governance safeguards and audits. Crucially, MiCAR prohibits the granting of interest to token holders – under Article 40 for asset-referenced tokens (ARTs) and Article 50 for e-money tokens. This contrasts sharply with the permissive US stance on yield.

While MiCAR represents an institutional breakthrough, its emphasis on regulatory prudence adds to the structural constraints of the euro area. Unlike the United States, the EU cannot rely on a deep, unified market in safe federal assets to support stablecoin reserves. Nor does it possess China's capacity, or desire, to impose capital controls and experiment with monetary instruments in a single jurisdiction. Instead, Europe's comparative advantage lies in legal harmonisation and market rule-setting – regulatory power for electronic tokens and crypto-asset service providers (CASPs): once licensed in one member state, based on that nation's supervisory authority's approval, an issuer may "passport" that licence across all 27 EU countries, creating a single, high-bar market standard. Because MiCAR covers any crypto-asset service aimed at EU residents – no matter where the firm is incorporated – global players must adapt to these rules if they want European customers. From a geoeconomic perspective, MiCAR is to digital finance what the GDPR became to data privacy: a benchmark shaping *global* practice.

Yet where Europe exports rules, it imports monetary dependence, and regulatory prudence has come at a tangible cost. As of the end of 2025, euro-denominated stablecoins account for only around US $0.7 billion in out-

standing supply, compared with nearly US $310 billion for dollar-denominated tokens.

MiCAR establishes the most stringent microprudential framework for stablecoins among jurisdictions that permit their issuance. However, by focusing on issuer-level safety while remaining currency-neutral, the macroeconomic and geoeconomic externalities of foreign-currency stablecoins are left largely unaddressed – and may, in the absence of a euro-denominated public alternative, inadvertently be reinforced.

Geoeconomic considerations already inform central banks' cautious approach to retail CBDCs (Quaglia & Verdun, 2025). However, the rapid expansion of dollar-denominated stablecoins makes these stakes considerably more acute. Without a credible euro-denominated digital settlement layer, the ECB risks a further erosion of monetary autonomy – with consequences for stabilisation policy, monetary transmission and Europe's growth potential.

Wholesale CBDC as a European institutional response

A wholesale digital euro, designed as a Eurosystem settlement and reserve facility for supervised stablecoin issuers, offers a coherent response to the constraints identified above.

In both the United States and Europe, the commercial viability of fully collateralised, non-bank issuers depends on two things: access to safe, short-term, liquid, yield-bearing reserve instruments, and reliable settlement through the banking and payment system. Unlike the US, the euro area lacks a structural unified federal short-term safe asset market that can serve as a natural reserve backbone at scale.

A wholesale CBDC can provide the missing public reserve layer by allowing supervised euro-stablecoin issuers to back tokens with central bank liabilities redeemable at par. Doing so would require the ECB Governing Council to establish a dedicated access-and-remuneration regime – setting eligibility, safeguarding, reporting and operational connectivity – and to define a rule-based remuneration parameterised to the Eurosystem's short-term rate framework (with caps/tiering as needed). This would not necessarily require treaty change, but it would go beyond today's non-bank access arrangements and would need to be designed consistently with the EU's broader legal and supervisory perimeter governing access to central bank money.

Unlike the US model, where stablecoin reserve assets are typically placed in Treasury bills and money market instruments, this structure would not mechanically channel stablecoin backing into sovereign debt markets. It preserves a clearer separation between settlement architecture and fiscal financing while keeping reserve backing inside the Eurosystem's monetary policy framework and under a remuneration regime that can be tiered or capped if needed to protect monetary policy control.

The mechanisms at work are straightforward. On the fiscal side, placing reserves in wholesale CBDC rather than in US Treasuries removes the channel through which European stablecoin activity contributes to US fiscal financing, thereby attenuating the fiscal externality. On the monetary side, anchoring euro-stablecoins in central bank money reinternalises payment activity and monetary base creation into the ECB's balance sheet, mitigating leakage into foreign digital instruments. Relative to the baseline of unanchored dollar-stablecoin growth, the dual-track design thus mitigates the monetary-base leakage channel and partially offsets the fiscal externality channel, even though it does not rely on, nor does it create, a deep pool of euro area safe assets.

Importantly, wholesale CBDC avoids the political and distributive challenges associated with retail CBDC (Belikoff & Blaszek, 2025). It does not in itself disintermediate banks, raise privacy concerns or require a treaty change. Instead, it extends existing settlement arrangements into a DLT environment, consistent with the EMU's historical pattern of integration through monetary instruments in the absence of a fiscal union (Schelkle, 2017; Howarth & Quaglia, 2020).

The design also addresses run risk by ensuring that every private token is fully backed by central bank money. In other words, a wholesale CBDC would become a geoeconomic instrument in its own right that could be conducive to innovation of truly "stable" privately minted euro coins on DLT rails.

From a welfare-theoretic perspective, a wholesale digital euro constitutes a second-best solution. It substitutes for the absence of a unified euro area safe asset and fiscal authority by anchoring private digital money directly in central bank liabilities. In the presence of binding institutional constraints, however, this second-best arrangement becomes the most operationally feasible means of preserving monetary sovereignty in the programmable economy.

Yield as a product differentiation dimension

MiCAR bans "yield" for stablecoins. Token issuers may not grant "interest" or any other benefit related to the length of time a token is held; and CASPs may not grant

such interest when providing crypto-asset services related to those tokens. "Interest" is defined broadly to capture any remuneration or benefit tied to holding duration, including net compensation or discounts that stem directly or indirectly from the issuer (or third parties directly associated with it), or that are effectively delivered through the remuneration or pricing of other products.

That rule locks euro-stablecoins into a "digital cash" profile. It prevents reserve returns from reaching end users, even when the backing is prudentially strong, and it creates a structural competitiveness wedge relative to the US's more permissive ecosystem for yield and rewards around stablecoins. MiCAR's no-yield stance reflects a deposit displacement concern: yield-bearing tokens could pull household liquidity out of bank deposits, shrinking bank balance sheets, and push banks towards a payments-and-service utilities role.

If Europe wants commercially successful euro tokens, the answer is not to dilute MiCAR's safeguards but to differentiate within them. Deposit substitution arises when yield and convenience make token balances more attractive than deposits. A narrow carve-out for wholesale CBDC-backed tokens, under strict disclosure and reporting, would make that trade-off manageable and give the ECB a clear control knob: it could set, by rule, the terms of access to the wholesale CBDC facility, including quantitative limits on eligible backing balances and a tiered remuneration schedule for those balances. That is competitiveness by legislative design – deliverable through MiCAR's review clause and the ordinary legislative procedure.

Longer-term progress on the Capital Markets Union would undoubtedly reinforce the design, but such reforms are not prerequisites for safeguarding monetary autonomy. In line with the Union's established pattern of advancing integration through monetary instruments in the absence of fiscal federalisation (Schelkle, 2017; Howarth & Quaglia, 2020), a wholesale digital euro would provide the euro with a credible anchor in the programmable economy, even in the absence of a full fiscal union.

Conclusion: Strategic coherence under constraint

Dollar-denominated stablecoins constitute a digital continuation of the Eurodollar system, amplifying asymmetric fiscal and monetary externalities for the euro area.

Much of today's stablecoin demand is increasingly driven by non-retail balances – centralised/decentralised finance liquidity, cross-border treasury management, trade finance, collateral posting and institutional settlement – rather than point-of-sale payments. This matters because a retail CBDC mainly competes at the local checkout, where it would have to displace already well-functioning instant payments on bank-based rails, while leaving the core settlement-layer externalities only weakly affected. Experience with the four retail CBDCs issued outside China – the Bahamas, Jamaica, the Eastern Caribbean Currency Union and Nigeria – also suggests that uptake of retail CBDC has so far remained modest, reinforcing the difficulty of relying on retail adoption to shift the relevant market segment.

Regulatory leadership alone cannot neutralise these dynamics. In a world characterised by open capital markets and programmable settlement, monetary sovereignty increasingly hinges on control over digital financial infrastructure.

Europe thus faces a strategic inflection point. Persisting with slow-moving debates over a retail digital euro – valuable in their own right – risks allowing dollar-backed stablecoins to entrench themselves as the default settlement layer of the programmable economy, accelerating a leakage of monetary sovereignty that the EMU's architects never envisaged.

Prioritising a wholesale digital euro, by contrast, offers a coherent and institutionally grounded response. It would provide the euro with a credible anchor in the programmable economy while catalysing private fintech innovation – an anchor that is, by design, aligned with Europe's institutional constraints and safeguards its geoeconomic interests.

Essentially, this is about strategic autonomy in the DLT settlement layer. The choice is political: Europe can export rules while accepting that settlement may default to foreign currency rails, or it can provide a public euro settlement anchor and accept the institutional decisions that this entails.

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