

# The EU's Digital Euro Plans

## A small-scale strategic hedge

- The digital euro is a strategic initiative by the European Central Bank (ECB) to strengthen the EU's monetary sovereignty in response to EU vulnerabilities and concerns about U.S. policy unpredictability.
- The initiative is still in its early stages and is being designed as a cautious, small-scale experiment with potential for future expansion.

### Introduction

The return of Donald Trump to the White House has revived EU policymakers' concerns about the possible impact of unpredictable U.S. policies, particularly in areas like trade, sanctions, and control over global payment networks.<sup>1</sup> It has also reinforced European concerns about overreliance on U.S.-dominated infrastructure and the dollar-based financial system and underscored the need to reduce vulnerabilities.<sup>2</sup>

### Background

In May 2020, 35 countries and currency unions were exploring using a central bank digital currency (CBDC), a digital version of fiat currency issued and controlled by a central bank with the same guarantees.<sup>3</sup> As of February, that number had jumped to 134.<sup>4</sup>

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The European Commission proposed launching a digital euro in June 2023 and hopes the investigatory phase of the project will be completed by October. The ECB has emphasized that the digital euro will initially be limited in scope, focusing on low-risk applications and small-scale transactions.<sup>5</sup> This approach allows the ECB to gather data, test resilience, and assess public acceptance without inducing systemic shocks.

It has proposed draft legislation for consideration by the Council of the European Union and the European Parliament. EU lawmakers are currently divided on the idea of a digital euro, and it is thus far unclear if they will agree to continue to develop the project after the end of the investigation phase.<sup>6</sup> Their main concerns include the potential for financial instability and privacy risks, with some calling instead for a pan-European private sector solution.<sup>7</sup>

### Vulnerability to external shocks

A digital euro represents a strategic hedge against geopolitical volatility, economic pressure, changing terms of service, or service withdrawal threats by bolstering European monetary sovereignty and reducing vulnerability to external shocks.

In an 8 April speech, Piero Cipollone, Member of the ECB Executive Board, emphasized the importance of cash for ensuring financial inclusion and resilience. He also underscored the need to develop a CBDC to enhance Europe's strategic autonomy and reduce vulnerabilities.<sup>8</sup>

Phillip Lane, another ECB Executive Board Member, has also warned about Europe's vulnerabilities. He has noted that foreign payment providers, such as Visa and Mastercard, process 65% of euro area card payments, and mobile app payments dominated by non-European tech firms, such as Apple Pay and Google Pay, account for almost 10% of retail transactions.<sup>9</sup>

### **Risk to financial stability**

Some critics are concerned that a digital euro could allow citizens to hold digital euros directly with the ECB, which could trigger a shift away from commercial bank deposits in times of financial stress.<sup>10</sup> If citizens view the ECB as a safer alternative, banks could face sudden outflows, undermining their ability to lend and potentially exacerbating economic downturns.

However, this risk can be mitigated. The ECB has proposed strict caps on individual holdings – potentially around €3,000 – and has clarified that digital euro accounts will offer no interest. These design choices aim to prevent the digital euro from functioning as a savings vehicle and position it as a transactional tool.

### **Privacy concerns**

Some critics also raise privacy concerns. They believe the digital euro could serve as a “Big Brother” tool that could erode financial anonymity.<sup>11</sup> However, the ECB also announced plans to uphold privacy standards and explore technologies like zero-knowledge proofs that allow for private, yet compliant, transactions.<sup>12</sup>

This perspective also overlooks an important fact: Existing banking systems already require extensive reporting to government authorities. In practice, most digital financial activity is already subject to scrutiny as banks must report suspicious transactions and provide customer data upon request pursuant to anti-money laundering and counter-terrorist financing regulations.

### **Cross-border payments**

One potential advantage of the digital euro lies in cross-border payments, which remain slow and costly under current systems. A digital euro could streamline international transfers by reducing reliance on intermediaries and outdated infrastructure.<sup>13</sup>

To maximize these potential benefits, it must be expanded beyond the eurozone and interoperable with other CBDCs.<sup>14</sup> Policymakers should also avoid

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Cross-border payments are one area where digital euro could offer significant improvements

enacting overly strict regulations in the name of preventing capital flight and illicit transfers.

### Conclusion

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The EU's digital euro project is not being designed to revolutionize the financial system overnight and dramatically alter how Europeans conduct daily transactions in the short-term.

Instead, it is a foundational infrastructure that can be expanded if future conditions demand it. Whether triggered by geopolitical crises, technological shifts, or private sector disruptions, the digital euro could provide the ECB with a flexible tool that could be scaled.

The EU's concerns about U.S. policy unpredictability and vulnerability to external shocks, coupled with the ECB's cautious approach and the view that this project is a small, low-risk experiment, will likely overcome EU lawmakers' skepticism.

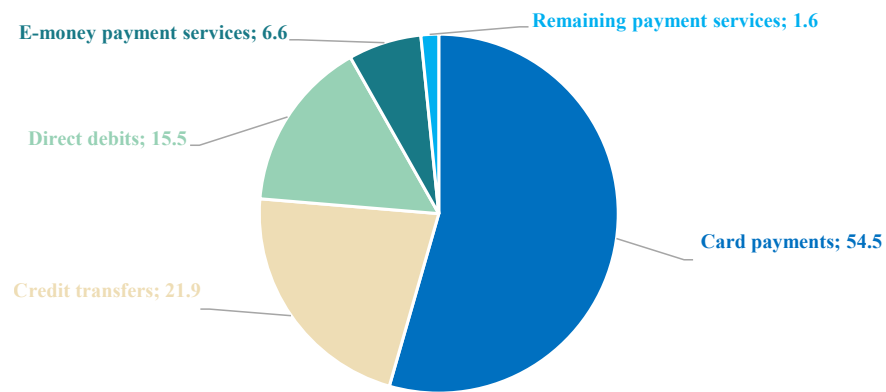
EXHIBIT 3.0 – STATUS OF CENTRAL BANK DIGITAL CURRENCIES FOR EURO AREA AND EU MEMBER STATES

Country/Region	Status	Use Case	Architecture
Andorra	Research	Retail	Undecided
Austria	Development	Retail, Wholesale	Undecided
Belarus	Development	Undecided	Undecided
Czech Republic	Research	Undecided	Undecided
Denmark	Inactive	Retail	Undecided
Estonia	Development	Retail	Intermediated
Euro Area	Pilot	Retail, Wholesale	Intermediated
France	Pilot	Retail, Wholesale	Intermediated
Germany	Development	Retail, Wholesale	Intermediated
Iceland	Inactive	Retail	Undecided
Italy	Pilot	Retail, Wholesale	Intermediated
Hungary	Research	Retail	Undecided
Lithuania	Inactive	Retail	Undecided
Luxembourg	Pilot	Retail, Wholesale	Undecided
Montenegro	Pilot	Retail	Undecided
Netherlands	Development	Retail	Intermediated
Norway	Pilot	Retail, Wholesale	Undecided
Spain	Pilot	Retail	Undecided
Sweden	Pilot	Retail	Intermediated

Note: Architecture refers to the technical and operational design of how the digital currency is issued, managed, and transacted. When intermediated, the central bank issues the CBDC, but commercial banks or payment providers distribute and manage it, similar to the existing monetary system.

Source: Atlantic Council Central Bank Digital Currency Tracker.

EXHIBIT 4.0 – PERCENTAGE OF NON-CASH PAYMENT SERVICES IN THE EURO AREA  
(FIRST HALF OF 2023)



Source: European Central Bank.

## Notes

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- <sup>1</sup> <https://www.reuters.com/markets/europe/eu-lawmakers-voice-doubts-about-digital-euro-after-ecb-outage-2025-03-10/>
- <sup>2</sup> <https://www.bloomberg.com/news/articles/2025-03-20/ecb-s-lane-backs-digital-euro-to-avoid-rising-stablecoin-risks>
- <sup>3</sup> <https://www.atlanticcouncil.org/cbdctracker/>
- <sup>4</sup> *Ibid.*
- <sup>5</sup> [https://www.ecb.europa.eu/euro/digital\\_euro/html/index.en.html](https://www.ecb.europa.eu/euro/digital_euro/html/index.en.html)
- <sup>6</sup> <https://www.reuters.com/markets/europe/eu-lawmakers-voice-doubts-about-digital-euro-after-ecb-outage-2025-03-10/>
- <sup>7</sup> <https://elpais.com/economia/2025-05-13/el-debate-sobre-el-euro-digital-agrieta-la-mayoria-proeuropea-en-la-eurocamara-pese-a-su-caracter-estrategico.html>
- <sup>8</sup> <https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250408~40820747ef.en.html>
- <sup>9</sup> *Ibid.*
- <sup>10</sup> <https://www.bruegel.org/analysis/digital-euro-holding-limits>
- <sup>11</sup> <https://www.france24.com/en/live-news/20250326-ecb-s-digital-euro-sparks-flurry-of-online-misinformation>
- <sup>12</sup> [https://www.edpb.europa.eu/news/news/2023/digital-euro-ensuring-highest-data-protection-and-privacy-standards\\_en](https://www.edpb.europa.eu/news/news/2023/digital-euro-ensuring-highest-data-protection-and-privacy-standards_en)
- <sup>13</sup> <https://www.tandfonline.com/doi/full/10.1080/09692290.2024.2345613>
- <sup>14</sup> <https://www.bruegel.org/analysis/digital-euro-holding-limits>