



The Digital Euro: A New Era for the European Monetary System

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1 Introduction: A Defining Moment for the European Monetary System

Europe stands at a crossroads with the evolution of money. The digital euro project, spearheaded by the European Central Bank (ECB), is more than a technical innovation – it is a strategic response to profound shifts in the global payments landscape. Since the project's inception, the debate has matured: Stablecoins, especially those denominated in US dollars, have rapidly gained ground, and the EU's regulatory frameworks are evolving to keep pace. The digital euro is now at the heart of discussions about Europe's monetary sovereignty, competitiveness, and the future of payments.

As the ECB prepares to decide on the next phase of the digital euro, it is crucial to take stock of recent developments and ensure that Europe's approach is both ambitious and pragmatic. This op-ed explores the digital euro's role in the broader context of global monetary competition, the rise of stablecoins, and the imperative for public-private collaboration. It concludes with key recommendations for policymakers and industry leaders.

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2 A Shifting Global Landscape: Why Europe Must Act

The digital euro project is unfolding against a backdrop of heightened geopolitical tensions and rapidly evolving economic and technological challenges. Recent years have underscored the importance of resilience and preparedness in Europe's critical infrastructures, including payments. As the global environment becomes more complex, the need for robust, future-proof solutions to safeguard Europe's financial stability and strategic autonomy has become increasingly apparent.

In this context, new forms of digital money are gaining traction. Stablecoins have recently attracted greater attention as part of a broader trend towards digital assets. This momentum has been further fueled by policy shifts in major economies, where for example the US government has chosen to support the development of regulated stablecoins while prohibiting any further work on central bank digital currencies. These developments add a new dimension to the transformation of the payments landscape, but they are only one element among many shaping the future of money.

The ECB's digital euro project aims to introduce a digital form of central bank money accessible to all citizens and businesses. The ambition is clear: to complement cash, offer a secure and efficient means of payment, and reinforce trust in the euro. However, the landscape has changed dramatically since the project began five years ago.

The digital euro, euro-denominated stablecoins and tokenised deposits together form a strategic triad for the future of European money. While the Markets in Crypto-Assets Regulation (MiCAR) and the ECB's PISA framework provide a solid foundation, further upgrades are needed to clarify terminology in the context of other rules, such as prudential rules, and to address cross-border risks, multi-issuance, and global interoperability. The EU should lead in setting international standards and building a robust ecosystem for euro-denominated stablecoins.

3 Building a Competitive and Resilient Payment Ecosystem

At a time when the European Union must mobilise substantial funding for defence infrastructure and digital transformation, it is essential to preserve the banking sector's capacity to finance these priorities. Therefore, the digital euro should be designed in a way that avoids significant outflow of deposits from commercial banks which would possibly increase funding costs, constrain the flow of capital into Europe's economy, place Europe's banking sector at a competitive disadvantage and strain financial stability, particularly in periods of stress.

A well-designed holding limit and a fair compensation model for banks and payment service providers are essential to avoid adverse consequences for the financial strength and capacity to invest and innovate within the European financial sector. Safeguarding the banking sector's ability to support Europe's broader strategic ambitions must remain central to the design and implementation of any new digital currency.

A further risk arises from the proliferation of regulatory initiatives aimed at modernising the EU payment ecosystem. The EU's retail payments strategy, published in 2020, is now also outdated given the rapid progress of the ECB's digital euro project and other market developments. Its focus on legislative measures, rather than a comprehensive vision for the future of money and payments, has led to fragmented and siloed efforts. Without a holistic strategy that encompasses the digital euro, stablecoins, and the established private sector ecosystem, these individual initiatives risk cannibalising each other's success, undermining coherence and diluting or delaying the benefits of innovation and investment.

What is needed is a collaborative approach between the private sector and the Eurosystem to build a joint pan-European payments acceptance infrastructure. The digital euro should not be conceived as a stand-alone solution. Its success will depend on seamless integration with existing and emerging European payment solutions, including stablecoins and tokenised deposits. By fostering a truly collaborative ecosystem – bringing together public and private actors, central bank and commercial bank money – Europe can ensure resilience, innovation, and strategic autonomy in its payments landscape.

The private sector continues to demonstrate its capacity for innovation and rapid adaptation. Initiatives such as the European Payments Initiative (EPI), Bizum in Spain and payment initiatives in multiple other Member States are already delivering tangible progress towards a pan-European payment landscape. Leveraging these efforts, in partnership with the digital euro, will avoid duplicative investments, enhance the resilience of EU retail payments, and ensure the seamless functioning of the digital euro within the broader financial ecosystem.

4 The Path Forward: Key Actions for Europe's Digital Euro

The digital euro represents a pivotal milestone for the European monetary system and its payment ecosystem. However, its success hinges on seamless integration with existing systems, prioritisation of critical projects, and a collaborative approach between public and private sectors. Above all, the design and implementation of the digital euro must not undermine the banking sector's essential role in financing Europe's defence, digital transformation, and other strategic priorities.

The comprehensive analysis and assessment currently underway among Member States and in the European Parliament is a vital part of this process, and it is essential that a robust legal foundation is established for this new form of central bank money to serve Europe well in the long term.

To realise this vision, we must prioritise and drive the following strategic actions:

1. Establish a holistic vision for EU payments. Develop and communicate a comprehensive, forward-looking strategy for the European payments landscape that encompasses all forms of money – central bank money, commercial bank money, stablecoins, and other digital assets. This vision should guide the evolution of payments in Europe over the next decade and beyond, ensuring coherence, competitiveness, and resilience.
2. Adopt a clearly phased approach, starting with either online or offline functionality. Implement a phased, pragmatic approach to the digital euro, beginning with a deliberate choice to launch either the online or the offline version first – rather than attempting to introduce both simultaneously. This decision should be guided above all by political priorities and the expectations shaped by a public debate and official statements. The initial choice between online or offline is only the first step. The digital euro should then be expanded iteratively, with new features and use cases added in successive phases as needs and priorities evolve.
3. Ensure financial stability and fair incentives. Implement a robust holding limit governance and a fair compensation model for banks and payment service providers to mitigate liquidity risks and maintain the financial strength and capacity to invest and innovate within the European financial sector. Special attention must be paid to preserving the banking sector's capacity to finance Europe's defence and digital ambitions.
4. Accelerate regulatory clarification, harmonisation and innovation. Upgrade MiCAR and related frameworks to address persisting legal uncertainties for the prudential treatment, cross-border risks, multi-issuance, and global interoperability in the context of stablecoins, and promote the development of euro-denominated stablecoins and tokenised deposits as part of a comprehensive digital money strategy.
5. Focus on wholesale applications and international competitiveness. Leverage tokenisation technologies to enhance the efficiency of capital markets and cross-border payments, supporting initiatives such as the Appia and Ponte projects for securities settlement and payments, as well as the Agorá project for wholesale central bank money. These efforts will help advance the EU Savings and Investment Union and strengthen the euro's role in global finance.

In a nutshell: The digital euro's development should be guided by a clear strategic roadmap, collaborative efforts, and – above all – a holistic vision for the future of payments in Europe. By addressing these considerations, the EU can build a robust and efficient monetary system and payment ecosystem that meets the needs of the digital economy, strengthens its position in the global financial landscape, and supports Europe's growth and competitiveness in a fast-changing world. Now is the time for all stakeholders to come together, pool their expertise, and actively shape this new digital era – ensuring the European payments landscape continues to innovate, thrive, and lead on the world stage.