



Cross-Asset- and Strategy-Research

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The Digital Euro

A rational assessment

Few economic topics currently provoke as much public emotion as the digital euro. Events with clients often reveal a deep unease, as people ask what purpose it is meant to serve. At times, these questions come with barely veiled fears of “total surveillance,” as some worry that the digital euro might mark the first step toward totally transparent citizens.

What exactly is the digital euro?

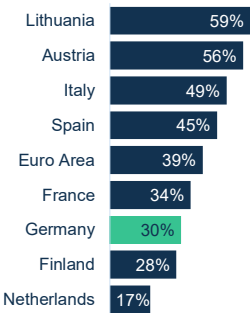
Let’s start with the basics. The plans of the European Central Bank (ECB) for a digital euro are by no means an outlier. Most central banks around the world are working on their own versions of central bank digital currencies (CBDC). Some nations, such as Jamaica, the Bahamas, and Nigeria, have already introduced it – in developing economies.

Unlike stablecoins, the digital euro and its international counterparts are not private money but digital cash. This means that digital currencies can only be issued by central banks. The goal? To simplify and reduce the cost of transactions across the entire Eurozone – an area that remains fragmented into national payment systems.

As a user, you would hold the digital euro in a wallet – perhaps via your smartphone – and be able to make cross-border, fee-free payments wherever the euro is legal tender. This could save you withdrawal fees withdrawing cash during your summer holiday in Portugal, and – unlike with U.S.-based payment services – European data protection laws would apply. You could easily load up your wallet with up to, say, €3,000. Your bank would link it to your checking account, much like it already does with your debit card. Users wouldn’t interact directly with the central bank; the digital euro would simply be a new and secure form of cashless payment (see figure).

A true hot-button issue

Fig.: Share of Cash Payments (% of value of payments, 2024)



Source: [ECB](#), LBBW Research

The Geopolitical Component

You might now be thinking: “This is all well and good, but do we really need it? Can’t I just use PayPal for this?” This is where monetary sovereignty enters the discussion. Doubts about the reliability of the U.S. have been growing. What would happen if, in a fit of anger directed at Europe, a president (let’s leave specific names unmentioned.) coerced major U.S. payment providers into cutting off services or hike prices to the EU? How would we function without Visa, Mastercard, Apple Pay, and the like? Rather than wait to find out the hard way, Europe would do well to reduce its dependence in this critical area. This also applies to the emergence of dollar-based stablecoins, which could undermine monetary autonomy. Ultimately, no one will be forced to use the digital euro. It is simply an additional option for Europeans, not an obligation. If you don’t like it, stay away from it.

The Beginning of the End for Cash?

Another common concern is that the digital euro is merely the first step towards eliminating cash altogether. Some point to the ECB’s decision in 2018 to stop producing €500 banknotes (although those in circulation remain valid as legal tender). The motivation for that decision is no secret: high-denomination bills are particularly popular in illegal transactions and money laundering.

Even in countries far ahead of the curve in digital payments, like Sweden, China, or Singapore, cash remains in use. No country in the world has abolished cash, and it is virtually unimaginable that the Eurozone would be the first to do so. Cash is enshrined in multiple European legal provisions, such as [Article 128](#) of the Treaty on the Functioning of the European Union and the regulation on the introduction of the euro. Doing away with cash would require a unanimous decision among EU member states – about as likely as hitting the lottery jackpot.

Furthermore, cash remains extremely popular among European citizens, leaving little political incentive to eliminate it. So, rest assured: the digital euro will not herald the dawn of an Orwellian surveillance state.

Will the digital euro happen, and when?

The ECB hopes to introduce the digital euro by 2029, with finance ministers largely aligned on this proposed timeline. However, the European Parliament must first establish the necessary legal foundation, by 2026. Clear signs of resistance are already emerging, particularly within the conservative European People’s Party (EPP) faction, which favors private European banks taking the lead instead. On the other hand, the German Chancellor Friedrich Merz, a fellow-conservative, is strongly advocating for the swiftest possible implementation of the digital euro.

As so often in Europe, skeptics may pull the handbrake. That could lead to a self-inflicted delay that American competitors would undoubtedly welcome at best, and, at worst, exploit.

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Resistance is
forming in
Parliament

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