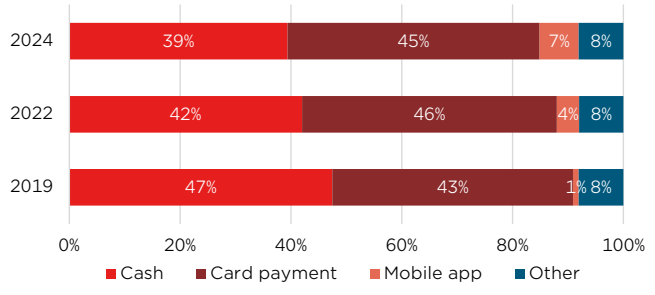
26 June 2025

Embarking on a new era of money – Do we really need a digital euro?

The way we pay has changed rapidly in recent years. More and more people are using cards, apps, or online banking to make their daily purchases or pay bills. While cash still plays an important role, the trend toward digital payment methods is unstoppable. In 2024, more payments in the euro area were made by card (45%) than by cash (39%), measured by transaction volume. In Sweden, for example, a pioneer in cashless payments, the central bank is now even urging people to keep cash as an emergency reserve – a response to new risks, such as cyberattacks or geopolitical crises.

Frequency of use of payment methods by transaction value



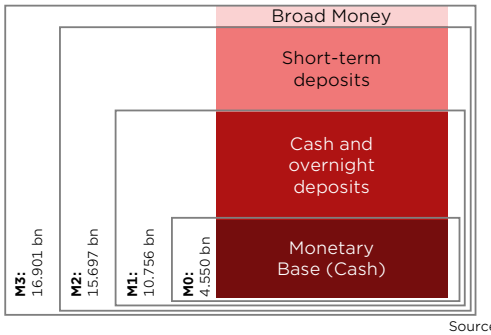
Source: ECB

Against this backdrop, the question arises: Is the digital euro a necessary step into the future or merely a technical gimmick? Many consumers have so far been rather skeptical about the added value of a digital central bank currency. Nevertheless, the European Central Bank (ECB) is pushing ahead with the project with great determination. The preparatory phase has already been completed, and an introduction could take place as early as 2027.

What exactly is central bank money – and why is it important?

To properly understand the digital euro, it's worth taking a closer look at our current monetary system. Central bank money is the foundation of our financial system and differs significantly from the money we hold in our current accounts with commercial banks. There are two classic forms of central bank money: cash (i.e., banknotes and coins) and the deposits that banks hold with the central bank – so-called central bank reserves. Cash can be used by anyone, but central bank reserves are accessible exclusively to commercial banks and are used for interbank payments and to steer monetary policy.

The money supply in the euro area



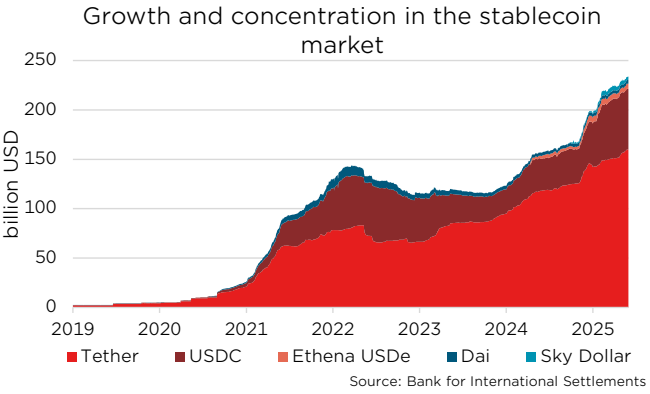
Source: ECB

The money in our current accounts, on the other hand, is so-called book money or deposit money. It is created by commercial banks when they grant loans. Although deposit money is denominated in euros, it represents a claim against the respective bank – it is therefore not directly issued by the central bank. In everyday life, this system functions smoothly as long as trust in the banks and the stability of the system are guaranteed.

The wake-up call: When Facebook wanted to challenge the monetary system

It is precisely this distinction between central bank money and private money that is crucial for monetary policy sovereignty. This became particularly clear when Facebook (now Meta) caused a stir in 2019 with the announcement of its own digital currency called "Libra." Libra's goal was to establish a global digital currency supported by a consortium of international companies and backed by a basket of traditional currencies and government bonds. The vision: Billions of Facebook users would have instant access to an alternative, global digital currency—independent of national central banks or the traditional banking system. Had Libra—later renamed "Diem"—been successful, a private company with enormous market power and global reach would suddenly have assumed a key role in global payments. Control over money creation, monetary policy, and ultimately the stability of the financial system would have shifted, at least in part, from public ownership to the sphere of a tech corporation. This was one of the main reasons why the Libra project was massively slowed down by regulators in Europe and the USA and ultimately shut down.

Although the Libra project has been discontinued, the idea behind it lives on in the form of so-called stablecoins and is more relevant today than ever. Stablecoins are digital currencies issued by private companies that – like Libra – promise stable value by being pegged to established currencies such as the US dollar. Unlike money market funds, for example, they do not distribute ongoing income to holders and are therefore not considered securities in many jurisdictions. This makes them particularly attractive for issuers, as they are not subject to strict securities supervision and can circumvent regulatory hurdles. While issuers deposit reserves as collateral, the exact composition of this collateral is highly opaque for many stablecoins. Therefore, it is completely unclear whether these private companies would be able to stabilize the price of their stablecoins in the event of a crisis. In its latest and strongest warning to date, the Bank for International Settlements (BIS), the central bank of central banks, even goes so far as to compare stablecoins to the unregulated private banknotes of the "free banking" era of the 19th century, arguing that they undermine the fundamental principle of the single currency. The collapse of the stablecoin Terra/LUNA in 2022 clearly demonstrated how real this threat of instability is. A major sell-off of stablecoins would also lead to a sell-off of the collateral they hold, such as short-term US bonds. This could lead to a rise in interest rates in the US and jeopardize the US government's ability to refinance. The BIS warns that, given the enormous market volume of stablecoins, such an event could even trigger a global financial crisis. This risk is no longer purely theoretical: In recent years alone, the stablecoin market has grown explosively, reaching a volume of over $260 billion. Against this backdrop, central banks are increasingly voicing concerns about the potential dangers of stablecoins and advocating for a stricter regulatory framework. Implementing such measures in the US, however, could prove difficult, as the close ties between the US government and the crypto industry make rapid and comprehensive regulation difficult.



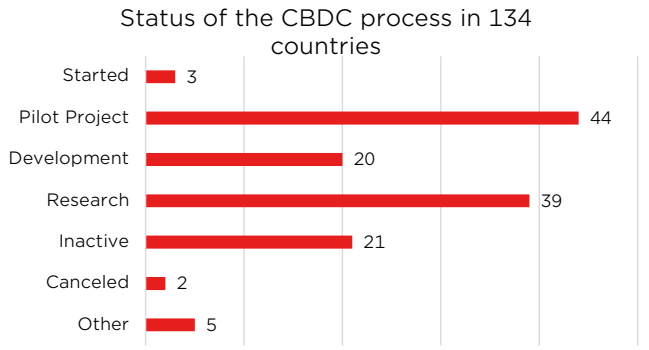
For the ECB, the Libra project was a wake-up call: The introduction of a digital euro is not just a matter of technological progress or user-friendliness, but also a matter of monetary policy independence and the preservation of European sovereignty in payment transactions. The digital euro is intended to ensure that the foundation of our monetary system – central bank money – remains under public control even in a digital future.

The answer: What the digital euro should achieve

The introduction of a digital euro would create, for the first time, a new form of central bank money that would be directly accessible to individuals and businesses. Essentially, it is a digital form of cash – issued directly by the ECB and usable via an app. The goal is to create an additional, secure, and free payment option that complements existing cash, but does not replace it. The ECB attaches particular importance to privacy protection and the ability to pay offline.

The discussion about digital central bank currencies, so-called Central Bank Digital Currencies (CBDCs), is no longer a European phenomenon. More than 130 countries worldwide – which together represent around 98 percent

of global gross domestic product – are working on developing such currencies. China is already widely testing a digital yuan with the e-CNY, while Nigeria has introduced the e-Naira – although so far it has enjoyed limited public acceptance.



Source: Atlantic Council, CBDC Tracker - as of February 2025

Monetary policy in transition: new instruments, new risks

With the introduction of the digital euro, the ECB would open a new chapter in monetary policy. This would create new opportunities to specifically control the money supply and respond to economic developments. A key question is whether the digital euro should bear interest. The ECB is currently examining various models, such as tiered interest rates. This would prevent the digital euro from being used extensively as a store of value and thus displacing traditional bank deposits. An excessive shift of deposits to digital central bank accounts could impair banks' refinancing options and, in extreme cases – such as a financial crisis – endanger the stability of the banking system. For this reason, upper limits on the amount of digital assets are also being discussed.

A particularly important aspect is so-called disintermediation, i.e., the transfer of deposits from the banking system to the central bank. If this process occurs slowly and in a controlled manner, it can even strengthen financial stability: Banks will have to adapt to a more sustainable business model, their debt will decrease, and liquidity in the financial system will increase. The risks posed by an overly large and overly leveraged banking sector are reduced.

However, if rapid and massive disintermediation occurs – perhaps triggered by a crisis of confidence in the banking sector – many people and companies could suddenly withdraw their money from banks and shift it into the digital euro. Such a scenario could lead to traditional bank runs, in which banks would be forced to sell assets on a large scale and at unfavorable prices to secure their liquidity. This could endanger the stability of the entire financial system. That is why it is so important to accompany the introduction of the digital euro with clear rules, caps, and prudent monetary policy.

What does this mean for banks, businesses and consumers?

The digital euro represents a profound change for the banking landscape, primarily challenging its role as financial intermediaries. The greatest risk is that customer deposits will be shifted into digital central bank balances, thus weakening banks' refinancing base. At the same time, new competitors could emerge in the payment sector – such as technology companies offering innovative solutions based on the digital euro. However, this also presents opportunities: A digital euro designed to be programmable by the ECB could, for example, make commercial interbank trading more efficient. Overall, the advantages outweigh the disadvantages for businesses and consumers: They can look forward to greater security, potentially lower costs, and a wider range of digital payment options.

Whether the digital euro will actually be a success depends crucially on how the ECB strikes the balance between innovation, data protection, stability, and competitiveness. Experience from other countries shows that a digital central bank currency will only be accepted if it offers real added value – be it through security, convenience, or new uses.

Jan Mooren

Market data

Stock markets	As of 27.06.2025 10:03	Change versus 20.06.2025 -1 week	26.05.2025 -1 month	26.03.2025 -3 months	26.06.2024 -1 year	31.12.2024 YTD
Dow Jones	43387	2,8%	4,3%	2,2%	10,9%	2,0%
S&P 500	6210	4,1%	7,0%	8,7%	13,4%	5,6%
Nasdaq	20168	3,7%	7,6%	12,7%	13,3%	4,4%
DAX	23854	2,2%	-0,7%	4,4%	31,4%	19,8%
MDAX	30079	2,4%	-1,0%	4,2%	18,7%	17,5%
TecDAX	3863	3,0%	0,8%	3,6%	16,0%	13,0%
EuroStoxx 50	5292	1,1%	-1,9%	-2,2%	7,6%	8,1%
Stoxx 50	4460	0,5%	-2,0%	-4,3%	-1,3%	3,5%
SMI (Swiss Market Index)	12011	1,2%	-2,5%	-7,3%	0,0%	3,5%
Nikkei 225	40151	4,6%	7,0%	5,6%	1,2%	0,6%
Brasilien BOVESPA	137114	0,0%	-0,7%	3,5%	11,8%	14,0%
Indien BSE 30	83958	1,9%	2,2%	8,6%	6,7%	7,4%
China CSI 300	3922	2,0%	1,6%	0,1%	12,7%	-0,3%
MSCI Welt	3985	2,6%	4,5%	7,4%	13,2%	7,5%
MSCI Emerging Markets	1227	3,1%	4,9%	8,4%	13,0%	14,1%
Bond markets						
Bund-Future	130,49	-44	-24	234	-153	-295
Bobl-Future	117,74	-12	-126	40	119	-12
Schatz-Future	107,27	2	-9	48	155	28
3 Monats Euribor	1,99	-4	-5	-38	-173	-72
3M Euribor Future, Dec 2025	1,79	-5	6	-25	-90	-11
3 Monats $ Libor	4,39	0	3	6	-111	2
Fed Funds Future, Dec 2025	3,76	-11	-14	3	-28	-15
10 year US Treasuries	4,26	-11	-24	-8	-6	-31
10 year Bunds	2,58	6	2	-18	15	21
10 year JGB	1,44	4	-6	-12	43	36
10 year Swiss Government	0,41	2	11	-29	-19	14
US Treas 10Y Performance	620,67	1,1%	2,5%	2,0%	5,0%	4,9%
Bund 10Y Performance	562,16	-0,4%	0,2%	2,5%	1,6%	-0,4%
REX Performance Index	459,45	-0,1%	0,3%	2,0%	3,5%	1,5%
IBOXX AA, €	3,09	0	2	-13	-36	5
IBOXX BBB, €	3,43	-1	-7	-21	-58	-3
ML US High Yield	7,42	-17	-45	-26	-63	-23
Commodities						
MG Base Metal Index	430,07	2,3%	3,2%	-1,9%	0,7%	6,0%
Crude oil Brent	68,05	-11,7%	5,0%	-7,9%	-20,5%	-9,0%
Gold	3285,38	-2,4%	-1,6%	8,9%	42,7%	25,1%
Silver	32,54	0,0%	0,0%	-3,2%	12,7%	9,6%
Aluminium	2583,40	0,9%	5,1%	-0,2%	4,7%	2,2%
Copper	10219,33	3,1%	6,0%	3,4%	8,7%	18,1%
Iron ore	94,48	-0,3%	-5,3%	-7,6%	-11,3%	-8,8%
Freight rates Baltic Dry Index	1553	-8,1%	15,9%	-5,0%	-20,9%	55,8%
Currencies						
EUR/ USD	1,1714	1,7%	2,9%	8,6%	9,6%	12,8%
EUR/ GBP	0,8529	-0,3%	1,6%	1,9%	0,8%	3,2%
EUR/ JPY	169,17	0,9%	4,0%	4,3%	-1,3%	3,7%
EUR/ CHF	0,9362	-0,6%	0,1%	-1,8%	-2,3%	-0,5%
USD/ CNY	7,1686	-0,2%	-0,3%	-1,4%	-1,4%	-1,9%
USD/ JPY	144,40	-1,2%	1,1%	-4,1%	-10,2%	-8,1%
USD/ GBP	0,73	-1,9%	-1,2%	-6,2%	-8,1%	-8,8%

Source: LSEG Datastream

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