The Digital Euro: A coin with two sides.

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Public and financial markets are increasingly losing confidence in the budgetary and monetary authorities to do what is needed to avoid major calamities. Can a digital euro restore trust in the actions of the central bank? We are inclined to answer "no" to that crucial question.

Members of the European Parliament recently received an **open letter from a group of European academics** arguing that a public digital euro is an essential safeguard of Europe's sovereignty, stability, and resilience. The authors warn against political debates that might "hollow out" the project. Without a meaningful digital euro, they argue, Europe risks becoming increasingly dependent on US-backed private digital currencies and losing control over the most fundamental element of its economy: money itself.

Yet despite being endorsed by seventy economists, **the letter fails to avoid a crucial conceptual confusion.** It conflates two fundamentally different economic functions of the digital euro: its role as a payment system and its role as money. This distinction is **not a semantic one**—it is central to any serious policy debate. According to the letter, a robust public digital euro is Europe's only defence. The digital euro is a currency issued directly by the ECB and available to the public in electronic form. It represents a direct claim on the central bank, very similar to cash money. By creating a direct link between

citizens and the European Central Bank (ECB), it would provide the safety and functionality of “public” money alongside the private money created by commercial banks.

----*"The letter fails to avoid a crucial conceptual confusion”*----

The real sovereignty issue: payments

Europe’s vulnerability in payment systems is real. Outside of cash, European payments are largely dominated by American companies. Card payments rely overwhelmingly on Visa and Mastercard; mobile payments are mediated by PayPal and Apple Pay or Google Pay. The degree of dependence varies across member states, but the overall picture is unmistakable.

This was not always the case. Twenty-five years ago, Europe had its own major payment champion: **Europay**. In 2002, however, the EU allowed Europay to be absorbed into Mastercard, thereby losing the strongest European counterweight to the American card networks. This happened *in tempore non suspecto*, but viewed from today’s perspective it raises uncomfortable questions. Given the strict scrutiny currently applied to cross-border bank mergers—even within Europe—it is hard not to wonder how this decision passed competition policy review so easily.

Why did no new European-wide alternatives emerge in the years that followed? The primary reason lies in the **fragmentation of Europe’s capital and payments markets**. Many member states operate domestic payment systems that do not extend beyond national borders. Recent initiatives, such as Wero, still operate in only a handful of countries.

The principle of mutual recognition—where a payment institution licensed in one member state could operate freely across the EU—remains far from reality. This fragmentation is compounded by familiar policy obstacles: **overregulation, excessive red tape, and insufficient access to entrepreneurial capital.** Complex regulatory frameworks and extensive reporting requirements tend to favour large, established players—often American—with the legal and administrative capacity to comply. Smaller, innovative European entrants are left at a disadvantage.

----"*Overregulation, excessive red tape, and insufficient access to entrepreneurial capital"*----

Admission of failure?

Against this backdrop, **the public digital euro may be perceived as an act of policy surrender**: an implicit admission that Europe has failed to create the conditions for private payment initiatives to scale across the continent.

But payment integration can take many forms. China has opted for a fully public central bank digital currency. India, by contrast, has chosen a hybrid model. The National Payments Corporation of India—set up by the banking sector and the central bank and tightly regulated—created an interoperable infrastructure that connects banks and payment apps. The result is the Unified Payments Interface, a real-time mobile payment system that has transformed everyday transactions. Crucially, India's experience shows that integration occurs at the level of the **payment rails**, while banks and companies continue to act as interfaces, offering apps, services, and credit. In the United States, multiple private payment systems coexist and compete.

Interoperability and integration, then, do not require a single, fully public solution. Nor should Europe's ambition stop at creating internal alternatives. Across Southeast Asia, countries such as Singapore, Thailand, Malaysia, Indonesia, India, and China—many of which skipped the card-payment phase altogether—are building open, standardized infrastructures based largely on QR-code payments. Cross-platform and cross-border compatibility is a central objective.

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These developments underline the need for Europe to participate actively in the **global debate on cross-border instant payments**. Otherwise, European payment solutions risk simply stopping at the EU's borders. Engaging globally could strengthen Europe's influence—and perhaps more realistically in this domain, allow it to learn from others.

The digital euro as money. A different question altogether.

Beyond its payment function, the digital euro also raises a distinct question: **its role as money**. The open letter presents it as an alternative to both physical cash and commercial bank money. Here, however, the sovereignty argument is less compelling. Most banks Europeans rely on are, after all, European.

The confusion arises because money serves multiple purposes, one of which is as a means of payment. In practice, the way money is held and the way it is spent are often intertwined. Cash can only be used for cash payments.

Stablecoins combine a specific digital wallet with a specific means of payment. But conceptually, money and payment infrastructure can be separated.
Bank deposits illustrate this clearly. The same money can be transferred between accounts using a wide variety of payment methods. This separation highlights why the digital euro's role as a payment instrument must be analysed independently from its role as money. In theory, the digital euro could even be designed purely as a **payment method**, by setting the maximum holding limit at zero. In that case, no central bank wallet would exist; payments in digital euro would simply be settled via existing bank accounts.

Alternatively, citizens could be allowed to hold digital euro wallets at the central bank, possibly operated by commercial banks. This would amount to a form of **safe money**: deposits backed one hundred percent by central bank reserves. The idea closely resembles proposals by Mervyn King, former Governor of the Bank of England, who argued for a clear distinction between fully liquid money and risk-taking banking activities in the aftermath of the 2008 financial crisis.

Whether such digital euro holdings would be attractive depends on key design choices—most notably whether they would pay interest, as China has begun to allow.

Beyond false dilemmas

Reasonable people can—and will—disagree about the future of Europe's payment systems and the optimal structure of its banking sector. But the debate on the digital euro deserves better than being framed as a simplistic choice between a fully public digital currency and complete dependence on the United States.

Reducing a complex set of policy choices to such a one-dimensional dilemma does not clarify the discussion. It obscures it—and ultimately weakens Europe's ability to make informed, strategic decisions.