Central bank digital currency: the sovereignty challenge

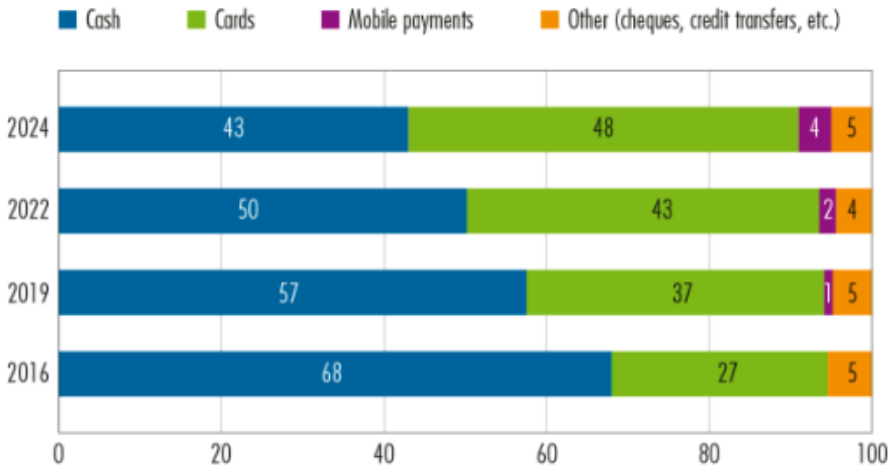
Agnès Bénassy-Quéré, September 2025

The change in the US administration's stance regarding Europe forces us to address our strong reliance on the United States in terms of certain critical services, particularly those involving payments.

In the euro area, like elsewhere in the world, the use of cash is declining each year. Payments are increasingly being made digitally via transfers, cards and mobile apps. In France, card payments became the most common method of payment at points of sale in 2024 (see chart).

Chart. Breakdown of means of payment used at points of sale in France

(% of transactions)



Source: Bacos et al. (2025), based on surveys conducted by SUCH (2016) and SPACE (2019, 2022 and 2024), and the European Central Bank.

The dual monetary sovereignty challenge

Monetary sovereignty can be defined in several ways. The first, traditional definition is “the ability of a state to issue and regulate its own currency”, in particular by ensuring that this currency is used within its territory (Helleiner, 2003); the second definition is “the ability of the state to use its monetary governance tools to achieve its economic objectives” (Murau & van ’t Klooster, 2022).

Regardless of the definition used, it raises a sovereignty challenge both at the external and internal level.

External (or international) sovereignty over payments

In the first half of 2024, 66% of card payments within the euro area were processed through international networks – mainly Visa and Mastercard, which are not European corporations (Cipollone, 2025). If these service providers were to discontinue their activities in Europe, 15 of the 20 euro area countries would be left without a card payment solution. In the remaining five countries (Belgium, France, Germany, Italy and Portugal), card payments could continue to function within national borders thanks to the existence of national bank card networks – for example, in France, *Groupement des Cartes Bancaires* (CB). However, these national payment solutions are losing domestic market share each year to the international networks (ECB, 2025). Moreover, the increase observed in mobile payments (such as ApplePay) is mainly attributable to non-European corporations.

One shortcoming of national payment solutions is that they are not interoperable: a French payment card cannot be used to pay for purchases in Germany or Italy. The Wero instant credit transfer solution – which replaced Paylib in France – aims to partially remedy this drawback. It is being gradually rolled out from 2024 on and will eventually cover five European countries (Belgium, France, Germany, Luxembourg and the Netherlands). However, for the time being, Wero remains limited to just a few countries and is not yet interoperable with EuroPA, a solution being developed simultaneously in three southern European countries (Italy, Portugal and Spain), and recent efforts to further harmonise these solutions have yet to bear fruit.

It is paradoxical that, 25 years after the introduction of the single currency, there is still no independent pan-European digital payment solution in the euro area. This situation could even be considered incompatible with the concept of a single European market. (Balz, 2025)

Even without envisaging a worst-case scenario in which US payment services were suddenly interrupted, Europe's reliance on the Visa-Mastercard duopoly is already apparent in the high and increasing fees being charged to merchants. According to a European Commission survey (2024), fees charged on debit card payments averaged 0.44% in 2022, up from 0.27% in 2018. Depending on the level of competition, merchants partly pass on these fees to their customers in their selling prices.

This domination of the payments market by a handful of non-European players can be explained by several factors. First, the payments sector relies heavily on network effects: the more a payment system is used, the greater the incentive for everyone to adopt and use it in turn. This favours existing players, especially as the fixed costs of entering the market, in terms of infrastructure, research and innovation, are high and difficult to recoup before attaining critical mass. Moreover, existing players defend their dominant position by deploying a frequently opaque pricing strategy (Les Echos, 7/11/2024). Lastly, due to their long-standing dominance in the payments sector, certain international players have proprietary technologies that are widely used in the industry, thereby reinforcing this position (e.g. for contactless payments).

European players have so far failed to come up with a pan-European payment solution, mainly due to coordination difficulties, fragmented technologies and different commercial practices between countries.

Internal sovereignty over money

The contemporary monetary system is based on the complementarity between commercial bank money and central bank money. When paying in cash, “central bank money” is used, i.e. money issued by the central bank, which appears on the liability side of its balance sheet. In contrast, when paying via a bank transfer or card, a commercial bank is instructed to debit one sight deposit account and to credit another sight deposit account. This is known as “commercial bank money”.

The two forms of money are now equivalent for two reasons:

(i) At any time, Manon can withdraw 100 euro in banknotes from an ATM, which amounts to exchanging commercial bank money (a debit to her bank account) for central bank money (banknotes), at a rate of 1 to 1. She can give this central bank money directly to Nicolas.

(ii) If Manon chooses instead to transfer 100 euro to Nicolas, she transfers commercial bank money from her account to Nicolas' account. To do this, Manon's bank asks the central bank to debit its own reserve account by 100 euro (central bank money) in favour of Nicolas's bank. Here too, there is convertibility at a rate of 1 to 1 between commercial bank money (Manon and Nicolas's bank deposits) and central bank money (the reserves of the two banks at the central bank). Nicolas will in turn be able to convert the commercial bank money he has received into banknotes, i.e. central bank money, at a rate of 1:1.

If Manon's bank does not have enough reserves at the central bank to provide banknotes or make a transfer, it can always borrow from the central bank, using high-quality financial assets as collateral. This ensures complete trust in 1 to 1 convertibility between commercial bank and central bank money, even if commercial banks create money by granting loans (subject to strict regulation and control).

In a world where cash is being used less and less, the question of the singleness and convertibility of money may arise (Lane, 2025). The risk is a form of privatisation of money and a fragmentation of monetary areas, such as that observed in the United States in the 19th century (Chaudhuri, 2014) and, ultimately, a more unstable financial system.

“Stablecoins”: *private* money that is now fundamentally *foreign*

Stablecoins can be regarded as the “second generation” of cryptoassets: they are issued by banks or non-bank institutions backed by liquid financial assets to guarantee their convertibility at a rate of 1:1 with the official currency, usually the US dollar. In this blog, we will not discuss tokens pegged to a basket of currencies or those backed by assets such as gold, which are not stable "monetary" tokens. Neither will we discuss "first-generation" crypto-assets, which are not backed by any asset reserves, experience significant price fluctuations, and are therefore not “stablecoins” (McDonald, 2023).

Stablecoins are issued and then traded using distributed ledger technology (DLT), such as blockchains, where transactions are validated via decentralised consensus protocols, without the need for an intermediary. This technology greatly facilitates cross-border payments and, therefore, the international circulation of stablecoins.

In the traditional two-tier banking system, Nicolas's bank receives a payment from Manon's bank in the form of central bank money. With stablecoins, Nicolas receives a claim on a private entity, which may be Manon's bank (if it issued the stablecoins itself) or any other bank or non-bank issuer. The singleness of the currency is no longer guaranteed by the wholesale payment system in central bank money. Nicolas has to consider what the stablecoin sent by Manon is worth; in the traditional system this question does not arise because the payment is made using central bank money (see BIS, 2025).

For us Europeans, the dollar-backed stablecoin is a non-sovereign asset in two respects: it is a *private* currency backed by a public currency *that is not the euro*.

- External sovereignty: 99% of the total volume of stablecoins in 2025 will be pegged to the US dollar and often issued by US companies (BIS, 2025).
- Internal sovereignty: even when pegged to the euro, these tokens promise but do not guarantee 1:1 convertibility with central bank money (banknotes and coins, bank reserves) and with commercial money (bank deposits), whereas the latter is convertible at parity with the central bank money (see above).

Stablecoins have grown rapidly since 2020, when they were virtually non-existent. In May 2025, their market capitalisation had already reached USD 255 billion (see BIS, 2025) At that time, two issuers – Tether and Circle – accounted for 90% of the market capitalisation, replicating, so to speak, the Visa-Mastercard duopoly in the stablecoin sector. The new US administration is actively promoting the development of dollar-backed stablecoins, notably with the adoption of the Genius Act on 17 July 2025.

For third countries, there is a risk of "digital dollarisation". This will encourage foreign workers and businesses in the United States to make cross-border payments using these tokens. Once transferred abroad, stablecoins could be used in local transactions. The risk is particularly high in countries already undergoing partial dollarisation, mainly due to a lack of confidence in the domestic currency. But the euro area itself is not immune. There is a risk that some bank deposits will migrate to stablecoins, leaving commercial banks without sufficient resources to finance the European economy, or forcing them to increase deposit rates in order to retain them (see Lubochinsky and Rojas-Breu, 2023).

The European Markets in Crypto-Assets (MiCA) regulation provides for the issuance of euro-backed stablecoins. It requires issuers to hold a significant part of their reserves in bank deposits, which mitigates the internal sovereignty problem (since the liquidity comes back to the banking system). Contrary to popular belief, the European regulator does not discourage stablecoin issuance in any way. Issuance has nevertheless remained limited in Europe so far, although the situation is changing.

The Eurosystem's strategy

Faced with the two-fold sovereignty issue, the Eurosystem is developing a two-tier strategy for retail and wholesale payments.

Retail payments: the digital euro

Once they become interoperable, the fast-track development of the pan-European Wero and EuroPA solutions will help reduce our reliance on non-European payment services. However, it will not be able to offset the weakening relationship between central bank money and commercial money resulting from the rise in digital payments.

The digital euro will exist alongside cash and private digital payment solutions, just as banknotes do for cheques, cards and bank transfers. The aim is by no means to introduce a new currency, but simply a new form of central bank money (Lagarde, 2020), alongside cash, which the digital euro is not intended to replace.

The main features of the digital euro will be the same in the digital world as those of the banknote, making it akin to a “digital banknote”:

- *Legal tender*: accepted throughout the euro area, in all contexts (including e-commerce); a truly pan-European and universal payment solution.
- Confidentiality of transactions, in particular thanks to an "offline" payment method that can be used below a certain threshold. In the same way that cash payments are “invisible” once ATM withdrawals have been recorded, these payments will also be “invisible” once the offline medium has been topped up from a bank account or with cash.

The digital euro will thus be a credible alternative to international card networks such as Visa and Mastercard. It will be usable and accessible everywhere in the euro area, representing as many as 350 million potential users in 21 countries. From its launch, it will benefit from significant network effects and the critical mass needed to compete with non-European technology giants. It will serve as a “platform for innovation” for private players, which will be able to easily offer their services (including Wero and EuroPA) throughout the euro area, with harmonised technical standards and commercial rules. Lastly, it will be built on a sovereign infrastructure, developed and operated in Europe by European service providers.

The digital euro will therefore increase competition, which will help to reduce fees for merchants, especially as the Eurosystem will not pass on its own costs.

The legislative framework is being debated democratically in the Council and the European Parliament. Subject to the completion of this draft regulation, scheduled for 2026, the digital euro could be launched as of 2028.

According to the Atlantic Council's tracker, in July 2025 there were 137 retail central bank digital currency projects worldwide, and three countries (Nigeria, Jamaica and the Bahamas) had already adopted one. The euro area is therefore part of a global trend. Conversely, the United States’ refusal to consider such a project is an exception. This is no doubt due to the dominant role of its players in the retail payments market (notably Visa, Mastercard, Apple, PayPal) and stablecoins.

Wholesale payments: interbank CBDC

Most interbank payments in euro now go through the Target services provided by the Eurosystem: when Bank A buys financial securities from Bank B, it pays by instructing the central bank to debit its reserve account and credit Bank B's account.

However, if the securities traded are tokenised, i.e. if they are recorded as a programme on a distributed ledger, there is a strong incentive for settlement to take place on the same distributed ledger, in the form of stablecoins. As we have seen, this poses a two-fold problem of sovereignty: external (stablecoins are essentially backed by the dollar and issued by US companies) and internal (settlement is beyond the control of the central bank, which cannot guarantee either the liquidity or the singleness of the means of payment). See Banque de France (2025).

In July 2025, the ECB Governing Council decided to launch a dual-track strategy for wholesale central money settlement (ECB, 2025):

- Initially (with the first phase starting in 2026), the Pontes project will offer market participants a DLT settlement solution that is interoperable with Target services.
- In the longer term, the Appia project will develop a shared distributed ledger at the European level: this will be a technical platform incorporating, in a single infrastructure, (i) tokenised central bank money, (ii) tokenised commercial money (bank deposits), (iii) tokenised financial instruments and, eventually, the digital euro.

By combining these different components in a single platform, the idea is to consolidate the anchoring role of the central currency while seizing the opportunity offered by this innovation to defragment the European financial market.

This infrastructure will thus contribute to the Savings and Investments Union project. By lowering the costs of bringing financial assets to market and trading them, it will enable smaller companies to access market financing and European savers to access more optimised portfolios.

Conclusion

Ultimately, the Eurosystem's strategy consists in using new digital technologies not only to ensure full monetary sovereignty, but also to promote the integration of European financial markets and, in so doing, contribute to the financing of the European economy. It is also a means of contributing to financial inclusion and social cohesion in the context of an increasingly digitalised economy.