



# RETHINKING CENTRAL BANK MONEY IN THE DIGITAL AGE

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# Introduction

## Changes in the financial and payments sectors

**Digitalisation** of the economy and payments

**Emergence** of the distributed ledger technology

**Tokenisation** of finance

### Two major challenges for central banks



Designing a **trusted and sound regulatory framework** to foster the development of innovation



Adjusting the provision of central bank money to **safeguard the role of central bank money** – and thus monetary sovereignty and financial stability

# I. Supporting the tokenisation of finance

## The emergence of tokenised finance presents opportunities and risks



A promising technology financial players are interested in



**Tokenisation** = issuing financial assets (settlement assets or securities) in the form of tokens that circulate on **distributed ledgers** (DLT/blockchain).

Identified benefits of DLT/blockchain



Speed



Transparency



Availability on 24/7 basis



Cost



However, this trend raises the question of the settlement asset to be used



**No central bank money in tokenised form.** Yet, central bank money is the safest and most liquid settlement asset

The use of private settlement assets (e.g. **stablecoins**) carries **risks for financial stability**



Runs



Volatility



Fragmentation

Tokenised assets also carry **risks for investors/users**



Money Laundering



Cyber risks

**ROLE OF  
CENTRAL BANKS**

**1 REGULATION:** contribute to the adaptation of regulations

**2 INNOVATION:** exploring the added value of DLT and CBDCs

# I. Supporting the tokenisation of finance

## MICA regulation : a pioneering regulatory framework to be strengthened

### MICA regulation (adopted in 2023)

#### A VITAL REGULATORY STEP FORWARD

- ◆ A **comprehensive regulatory framework** across the EU for crypto-assets, stablecoins, and related services
- ◆ A **tool intended to protect EU consumers**, ensure market integrity, and safeguard financial stability

#### CURRENT RISKS / *Partially covered by MiCA*

- ◆ A **predominating USD-denominated and non-bank market** (99% of market capitalisation)
- ◆ **DeFi and crypto-conglomerates** outside the scope of MiCA

#### FUTURE RISKS / *The need to bolster the EU framework*

- ◆ **Rapid market growth** and **extension of use cases** outside the crypto sphere (cross-border payments, tokenised finance, retail)
- ◆ **Large scale adoption of USD-denominated stablecoins**, issued by non-bank and non-European entities

#### TOWARDS MICA II ?

- **Limitations of stablecoins in the retail sphere** on :
  - the use of stablecoins,
  - the volume in circulation
  - the currency
- **Limitation or prohibition of multi-issuance models**

# I. Supporting the tokenisation of finance

## Why explore a wholesale CBDC?

? The emergence of decentralised finance (DeFi) raises the question of the settlement asset used



**No central bank money in tokenised form.** Yet, central bank money is the safest and most liquid settlement asset



**Monetary sovereignty issue:** potential rapid growth of stablecoins, predominantly non-bank issued, non-European, and denominated in USD

Central banks must maintain the anchoring role of central bank money, while safeguarding its **coexistence with other settlement assets**.

Wholesale CBDC

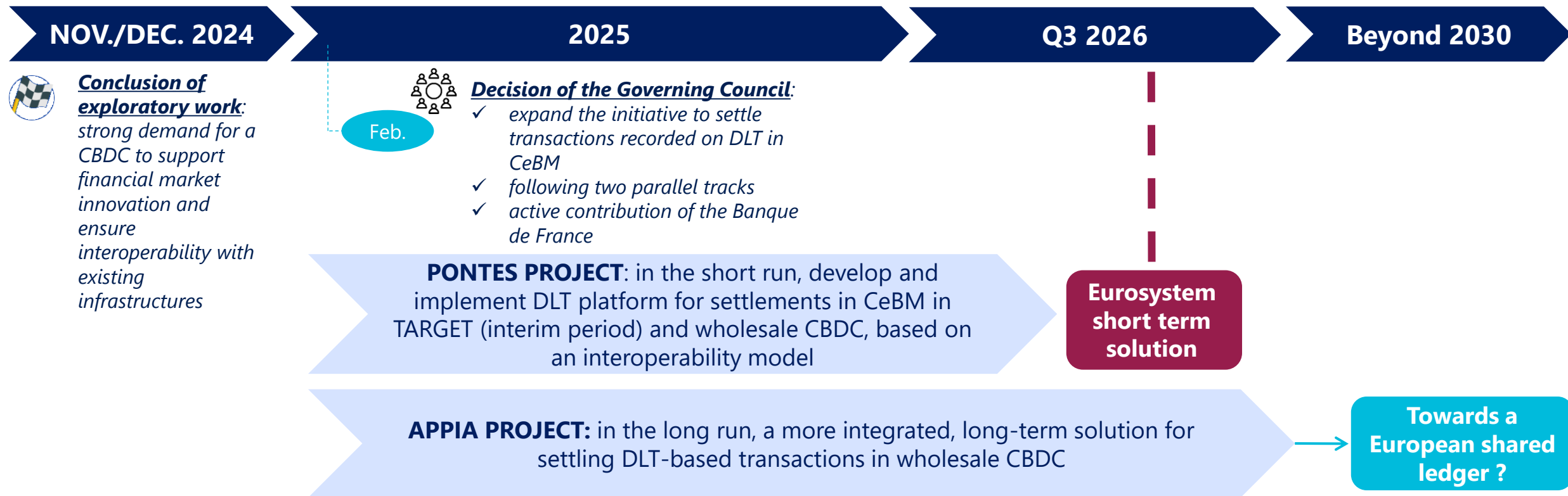
Stablecoins

Crypto-assets

**EXPERIMENTS:** wholesale CBDC as a solution

# I. Supporting the tokenisation of finance

## Eurosystem's way forward: a two-track approach on wholesale CBDC



*"Our approach will pay due attention to the Eurosystem's goal of achieving a more harmonised and integrated European financial ecosystem."*

Piero Cipollone, ECB Executive Board member

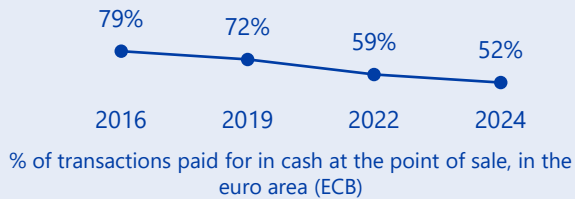


## II. Supporting the digitalisation of retail payments with a digital euro

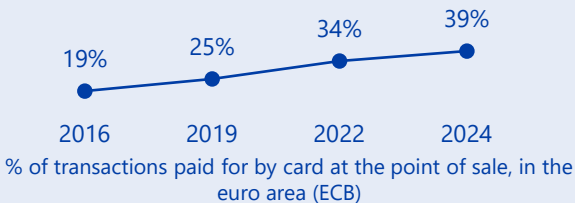
### Maintaining the characteristics of cash in the digital space



#### Lower use of cash in payments



#### Development of digital means of payments



#### Growth in e-commerce



#### A "digital banknote"

Issued and guaranteed by the **central bank**

**Free of charge** for individuals

**Accepted everywhere** thanks to its legal tender status

**Offline use**, enabling high level of privacy and resilience

Supports financial and digital **inclusion**

#### Freedom of choice

The digital euro will never be "**programmable money**"

**No remuneration**

**No substitute** for commercial bank money

The digital euro will **complement cash**, not replace it

The central bank will **never see the identity of the payer**



## II. Supporting the digitalisation of retail payments with a digital euro

### Reinforcing European sovereignty and integration in payments



**A fragmented European landscape...**



Only **5 euro area countries** still have their own domestic card schemes



**...and a growing dependence on non-European players...**



Increasing market share of International card schemes



Big Tech are gaining momentum in payments

**...giving rise to challenges for the European payment ecosystem**



Sovereignty



Resilience



Competition



Merchant fees



**The digital euro will strengthen European sovereignty and integration in payments**



The distribution of the digital euro will be entrusted to commercial banks and other PSPs



The distribution of the digital euro will be governed by **open, harmonised acceptance standards** (describing all interactions, e.g. cards and terminals)



These standards may be **reused by private actors**, allowing them to offer their services easily and instantly across the euro area



The digital euro is designed as a “**platform for innovation**” that private players can leverage to deploy innovative use cases at the pan-European scale



## II. Supporting the digitalisation of retail payments with a digital euro

### How and when could the digital euro be issued?



#### A cooperative approach to facilitate the integration of the digital euro into the payment ecosystem



A constant dialogue with **all market stakeholders** (banks, non-bank PSP, merchants, consumers)



Reuse, as much as possible, of **existing infrastructures** (e.g. terminals, ATMs, standards...)



Define a **viable economic model** for all ecosystem players (merchants, banks...)



**Preserve financial stability through appropriate measures:** holding limit (to be calibrated later), no remuneration



#### Technical and legislative work advancing in tandem



The **current phase** of the project launched in November 2023, allows to...



... finalise certain **analyses** (e.g. design of the scheme rulebook)



... conduct **experiments**



... select **providers** likely to develop the architecture



**Governing Council decision in Q4** on whether to move on to the next phase of the project



**The decision to issue a digital euro has not yet been made:** it can only be taken once the European regulation has been finalised and adopted following the ongoing democratic debate

