Please, Digital Euro Now!

Carlos Arenillas Lorente

Introduction

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The following phrase is attributed to A. M. Rothschild, founder of the Rothschild banking dynasty: "Give me control of a nation's money and I care not who makes its laws."

I bring this up because of the wave of statements in favor of a digital euro in recent weeks. Lagarde and other members of the ECB, the European Commission and Parliament, President Sanchez, and Governor Escriva, among others, insist on the need for the EU Parliament to urgently approve the legal framework so that the ECB can launch the digital euro a new sovereign or public money.

The vast majority of people believe the state holds sovereignty over the monetary system (money). But many are blissfully unaware that this public power has significantly declined in recent decades. Today, money creation and its distribution are primarily private.

Moreover, the Trump administration is blatantly supporting financial deregulation and the crypto world, especially so-called stablecoins. Executive Order 14178 promotes the use of cryptocurrencies and privately issued dollar stablecoins, and prohibits CBDCs (central bank digital currencies), with support from key administration figures linked to the tech and finance sectors, such as Musk, Lutnick, and other tech billionaires who share the goal of maintaining U.S. dominance in international payments and supporting cryptocurrencies.

What if the trade war morphs into a financial war? This question is raising concerns in political and financial circles. The quality and stability of money and its circulation (the payments system) are crucial for developed economies. But Europe is highly dependent on the U.S. for much of its payment system.

The digital euro will have several advantages, but Ill focus on two key challenges it addresses: regaining monetary sovereignty in money issuance and in payments.

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Regaining Monetary Sovereignty

Its worth recalling the situation of our complex (and unstable) monetary system, in which private banking plays a central role. Essentially, our monetary system consists of two levels: central bank money and bank money.

Central bank money, known as outside money because it is created outside the private banking system. It is issued in two forms: physical cash (bills and coins), and digital reserves or deposits held by banks in their central bank accounts. Both are public or sovereign money, the safest form of money. Physical money is used by everyone, but the digital money (reserves) issued by the central bank can only be used by banks. We cannot yet access that privilege. Banknotes earn no interest; bank reserves do.

Bank money, also known as inside money, is created within the banking system. It is the money created when banks grant loans (and destroyed when loans are repaid). This is the money in our checking accounts, used daily as if it were official money. It is less secure, as banking crises remind usoften more frequent and costly than complete power outages.

Although both types of money come from different issuers, they are interchangeable under normal conditions. Thats why we can withdraw cash (converting inside money to outside money), deposit cash into the bank (the reverse), or make digital payments with cards or apps using bank-issued money.

But this confidence relies on the proper functioning of the system and the guaranteed equivalence between the two types of moneymainly by banks (ahem), but especially by governments and the ECB through various costly protections. These protections increase with each financial crisis to maintain the equivalence, costing public funds and inflicting serious societal harm. Thats the modest price we pay for the current system.

How much money is there in the eurozone? The money supply includes about 1.5 trillion in cash (physical money) and 10.1 trillion in bank money (digital). Thats 11.6 trillion in total. Roughly 10% is public money (issued by the ECB) and 90% is private (issued by banks).

So, nearly all the circulating money in the economy is privately issued. Not much sovereignty in money issuance, then.

Regaining Sovereignty in Payments

The second challenge concerns the payment system the moneys circulatory system. For example:

 Except for cash payments, nearly all payments pass through bank balances.

 70% of card payments rely on non-European brands: mainly VISA and MasterCard essentially a duopoly.

 Most payment apps are not European: Google Pay, Apple Pay, PayPal, etc. The exception is Spains BIZUM.

Furthermore, international bank transfers are expensive and slow. Dollar-denominated stablecoins pose a real threat by offering fast, cheap, 24/7 alternatives compared to traditional, clunky correspondent banking.

Not much sovereignty here either.

Advantages of the Digital Euro

The digital euro will be a new form of ECB-issued money (outside money) available digitally to everyone (not just banks). It guarantees direct access to public money, even without cash or a bank account.

European citizens will be able to choose (within limits) from three types of money: two public (physical or digital euros), and one private (digital bank money, like todays).

Though much remains to be defined, for now we know the digital euro will be a new central bank liability; risk-free and under Eurosystem control; for everyday payments; complementary to cash; interest-free like cash; with low or zero fees; accessible via supervised entities across Europe (not only banks); and compatible with private sector payment apps and account services.

It will be subject to a limit, still to be defined, of a few thousand euros (ECB suggests 3,000 to 5,000, Bank of England talks about 10,000). If this limit is too low, adoption could be hindered.

Its advantages are many, but lets return to the two main challenges:

If each eurozone citizen could hold up to 4,000, and all 350 million people did, that would total 1.4 trillion. Adding existing cash, wed have 2.9 trillion in public money versus 8.7 trillion in private bank money. Public money would rise from 10% to 25% of total money in circulation balancing out the system and making it more stable and diverse.

Digital euro balances will not appear on bank balance sheets (like securities accounts), so many transactions would bypass bank books. Risks from banks, platforms, and payment apps would diminish. A public infrastructure like the digital euro would support secure payments guaranteed by the central bank.

Deposit insurance would be unnecessary for digital euros, as the ECB inherently guarantees them. It would also reduce the interest paid on excess reserves held by banks at national central banks saving money for governments.

The digital euro could compete with private dollar stablecoins for international payments.

Moreover, a European digital payment technology with near-zero cost could replace the expensive services of foreign providers. This would be akin to removing a transaction tax on eurozone economic activity. Brazils PIX system is a successful example.

Conclusions

The battle for control of future money and payments is on; the U.S. and tech oligarchs want to win. But many eurozone leaders seem determined not to lose this fight for economic and monetary sovereignty. Thats a core motivation behind the digital euro a central bank-issued digital currency that, if well and quickly implemented, could rival or surpass the appeal of bank money and dollar stablecoins.

Philip Lane of the ECB put it plainly: The digital euro is not just about adapting our monetary system to the digital age. Its about ensuring Europe controls its monetary and financial destiny in an increasingly fragmented geopolitical world.

The digital euro will benefit autonomy, efficiency, and security in the system, support innovation and financial inclusion, but its final deployment will depend on balancing these benefits with key aspects like privacy and public acceptance. As Ive said, the biggest risk is that if the holding limit is too low, most of society may not adopt it.

Everything indicates that the digital euro must be introduced as soon as possible, even if it begins with some limitations. Please, issue it now.