



By: Tomorrow's Affairs Staff

How will the digital euro change the way the world makes payments?



After the European Central Bank (ECB) **presented** the digital euro innovation platform with almost 70 partners from the private sector on 5 May, a meeting was held in Lisbon on 7 May, attended by ECB President Christine Lagarde, Vice Presidents Fabio Panetta and Luis de Guindos, the governors of the eurozone's national central banks, representatives of Fluency company and other technology partners, as well as delegates from the European Commission.

The topic of the discussion was the further **development** and testing of the digital euro (CBDC, central bank digital currency), with a particular focus on the connection with the Chinese digital yuan (e-CNY, electronic Chinese yuan) and the American digital dollar project.

Until a few years ago, central bank digital currencies were only a topic for experts. Today, they have become a means of payment that we use to send money to friends, pay bills, and carry out international transactions.

In contrast to the final abolition of cash, the digital euro will only be a supplement to paper banknotes. Citizens will be able to open free digital wallets in banks or post offices and pay even if they do not have an internet connection (offline mode).

China has long been a **pioneer**. The China central bank's digital currency, e-CNY, has been in test operation since 2019. By mid-2024, citizens had processed transactions worth over seven trillion yuan (around 986 billion dollars).

It is pegged 1:1 with the physical renminbi (no interest, similar to paper money) and enables programmable payments (conditional transactions, for example, automatic release of funds only after delivery confirmation).

China's central bank monitors every transaction to prevent money laundering and is testing cross-border links with Hong Kong and several partner countries to increase the international reach of the yuan.

The US is just beginning research

The United States, on the other hand, is just beginning research; the Federal Reserve (FED) has considered the use of a digital dollar as **part** of "Project Cedar" (research on DLT – distributed ledger technology for large banks), but no retail CBDC test has yet been launched.

In January 2025, President Donald Trump **issued** an executive order prohibiting federal agencies from "creating, issuing, or promoting" a digital dollar, focusing on the regulation of stablecoins (cryptocurrencies pegged to real-world currencies).

Fed Chair Jerome Powell **confirmed** at a hearing in March that "the Fed will not **adopt** CBDC while he is in charge," pointing out that the existing electronic systems (SWIFT for cross-border and ACH for domestic payments) meet the needs of citizens and protect privacy.

The greatest challenge remains interoperability

The greatest challenge remains interoperability (the ability of different payment systems to exchange funds).

More than 40 CBDC pilot **projects** around the world use different protocols and technologies, so connecting the digital euro with the e-CNY or the future digital dollar will require harmonising technical standards, data protection regulations and anti-money laundering mechanisms.

Maintaining monetary independence

The ECB is considering a bridge architecture, where messages are translated between different CBDC networks, but it has not yet been decided whether all cross-border transactions should go exclusively through European entities or whether non-European

intermediaries will also be authorised.

For Europe, two goals are of central importance: maintaining monetary independence (the ECB's right to control the amount of the euro and the conditions for its use) and expanding financial integration.

Free digital wallets at post offices and non-bank service providers will enable basic payment services for people without bank accounts.

Programmable features can automate social payments, tax refunds or humanitarian aid; the offline mode protects users in areas with poor internet connectivity.

In times of crisis, there is a risk of a "digital escape"

However, in times of crisis, there is a risk of a "digital escape" (sudden transfer of funds from commercial banks to the CBDC), which would make it difficult for banks to market loans.

Therefore, limits (maximum amount on the account) and negative interest rates (charging fees for amounts above the threshold) are being tested in the pilot phase to protect the banking system from a sudden wave of withdrawals.

Further testing of the Eurosystem's ledger and agreements on interbank "swap lines" (short-term credit arrangements) with the central banks of Japan, Singapore and South Korea could significantly reduce the cost of cross-border payments and prevent market fragmentation.

In parallel, a well-thought-out campaign is needed to explain to citizens how the digital euro works, what happens to their data and why it is important for small and medium-sized enterprises operating in several countries.

Practical benefits

For consumers, the digital euro brings practical **benefits**: faster payment of bills abroad without additional commissions, easier sharing of expenses with friends and family in real time, and the certainty that money will not "disappear" if the bank is temporarily out of service due to a technical fault.

In the event of natural disasters, the central bank could help the most vulnerable people with an instant electronic transfer without waiting for slow banking processes.

The meeting in Lisbon showed that Europe is ready to embark on an ambitious venture.



The ECB expects at least 15-20% of eurozone citizens to actively use the digital euro in their everyday lives over the next two years - Christine Lagarde

Christine Lagarde and the ECB team, together with engineers from Fluency, presented working prototypes for offline payments and programmable functions, while legal experts presented basic guidelines for international agreements on data protection and combating financial crime.

Observers from countries that are not yet part of the eurozone could consider their involvement in future phases of the experiment.

The ECB expects at least 15-20% of eurozone citizens to actively use the digital euro in their everyday lives over the next two years. By 2027, it will account for around 10% of the total value of electronic payments in the region.

Banks have already announced the adaptation

of their IT systems, and they estimate that the switch to CBDC could lower costs by 25–30% but will also require new liquidity reserves of at least 5% of deposits to maintain financial stability.

Citizens, entrepreneurs, and policymakers should closely follow every move from Frankfurt and Lisbon, as the digital euro could shape the continent's money flows for decades to come.

A global model for secure and rapid digital payments

At the same time, experts estimate that the digital euro could attract between 5% and 12% of total bank deposits in the event of an economic shock within the first month of the crisis.

The ECB is therefore preparing technical solutions for the immediate allocation of liquidity via the digital channel to prevent sudden bank migrations.

As the transition from the pilot phase to the production phase draws closer, Europe must balance between the speed of its launch and caution, as prematurely opening a CBDC without sufficient testing could lead to unexpected consequences for the banking sector and consumers.

The digital euro has the potential to become a global model for secure and rapid digital payments

However, if everything proceeds as planned, the digital euro has the potential to become a global model for secure and rapid digital payments, thereby enhancing the euro's standing in international markets and providing a significant boost to small businesses and citizens throughout the continent.

Months of decision-making lie ahead: will Europe succeed in combining technological innovation with privacy protection and stability of the financial system, and will the delays in the US further weaken the dollar's position and give the digital euro room to take the lead?