

# EU Regulatory Observatory:



## The Digital Euro

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## Summary

- The digital euro is a legislative proposal (2023/0212(COD)) tabled under the EU's Digital Finance Package, aiming to establish a central bank digital currency issued by the ECB for retail payments, to complement cash and existing private payment solutions.
- The EU Regulatory Observatory's expert panel delivers a predominantly skeptical verdict. Most assessments cluster in the 2-4 range on the regulation–deregulation scale, indicating that the proposal is perceived as a regulatory expansion rather than a liberalising reform, a conclusion reinforced by confidence-weighted scores.
- Experts broadly agree that the euro area already benefits from efficient, low-cost, and innovative payment options, including cash, card-based systems, instant bank transfers, and mobile payment applications, calling into question the necessity of a new public retail payment instrument.
- COM/2023/535 combines two binding legislative acts – A Head Office Tax System for cross-border SME groups and a 30-day payment mandate – with seventeen complementary tools and initiatives designed to facilitate tax simplification and provide sectoral reporting relief and digital support.
- The main concerns relate to the extension of legal tender status, mandatory acceptance rules, holding limits, and operational requirements, which are seen as increasing regulatory weight and expanding the institutional footprint of the ECB in an already competitive market.
- Some respondents acknowledge potential benefits, such as strategic autonomy and increased resilience, but these are widely viewed as conditional and achievable through less intrusive alternatives, including interoperability, regulatory simplification, and private-sector innovation.
- Overall, the expert assessment suggests that the digital euro represents an expansion of public involvement in retail payments, raising longer-term questions for competition, privacy, and monetary governance that remain relevant throughout the legislative process.

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## Introduction

The EU is currently considering the introduction of a digital euro as a form of the central bank currency that its citizens and businesses can use for retail payments. This initiative has emerged in the context of the increased digitalisation of payments, the declining role of cash in certain use cases, and the growing reliance on private – and often non-European – payment infrastructures. Against this backdrop, EU institutions have argued that, if central bank money were to become largely confined to wholesale markets, its role as the anchor of the retail payment system could be gradually eroded. In particular, the absence of a widely accessible public digital means of payment could weaken the function of central bank money as a universally accepted, risk-free settlement asset, increase dependence on private payment providers, and ultimately affect monetary sovereignty, competition, and trust in the euro area's monetary framework.

On 28 June 2023, the European Commission presented a proposal to regulate the digital euro. The proposal does not mandate issuance, but rather, it seeks to create a legal framework under which the European Central Bank (ECB) may decide whether to issue a digital euro and under which conditions. The file is currently being processed through the ordinary legislative procedure, with ongoing debates in the European Parliament and the European Council.

A significant procedural milestone was achieved in October 2025, when the ECB's governing council decided that the preparation phase, begun in November 2023, had been completed and that the Eurosystem would proceed to the next phase of development for the digital euro (European Central Bank, 2025). This next phase is focused on advancing technical readiness, refining system architecture, deepening engagement with market participants, and aligning further processes with the ongoing EU legislative pathway. This decision does not constitute a commitment to issuance, however; the actual choice to issue a digital euro will only be made after the legislative framework is adopted, which should happen in 2026 if the co-legislators can agree on the text. The first issuance would likely be in 2029, once the required legislation is passed.

## Stated objectives

The digital euro is conceived as a retail central bank digital currency (CBDC) with the status of legal tender, intended to coexist with euro banknotes and coins. As such, it would constitute a direct liability of the Eurosystem and be distributed to users via supervised payment service providers. The proposal emphasises that the digital euro would complement rather than replace cash, although its introduction would mark a significant extension of public money into the digital payments space (European Commission, 2023).

According to the Commission and the proposals presented, the digital euro is intended to address several perceived policy challenges:

- preserving the role of central bank money as a monetary anchor in an increasingly digital economy;
- supporting a pan-European retail payment solution with cross-border application;
- reducing structural dependence on non-European private payment providers;
- ensuring access to digital payment for all euro area residents, including vulnerable or underbanked groups; and
- developing public infrastructure that can coexist with, rather than displace, private payment solutions.

These objectives are presented as cumulative, although the extent to which a single instrument can effectively and proportionately address them remains a central point of debate.

## Design features under discussion

The legislative process has increasingly focused on design choices that are relevant for the economic and institutional implications of the digital euro, to optimise for:

- a distinction between an offline digital euro, allowing device-to-device payments with limited connectivity and enhanced privacy, and an online digital euro, relying on account-based infrastructures;
- legal tender status for the digital euro, including rules on mandatory acceptance and possible exemptions;
- mitigation of financial stability risks through holding limits and other safeguards; and
- cementing the role of the ECB versus the European Commission in setting key parameters, such as limits on holdings.

Recent parliamentary drafts place particular emphasis on the offline digital euro and introduce conditionality for the online version, reflecting concerns about proportionality, privacy, and potential crowding out of existing market solutions.

## Why expert assessment matters

The digital euro proposal, however, leaves some unresolved questions regarding

- its necessity and proportionality relative to existing payment solutions;
- Its implications for financial intermediation and bank funding;
- privacy, data protection, and governance; and
- the balance between public intervention and market-based innovation.

The expert survey presented in the following sections is intended to assess these issues critically, by capturing informed views on the proposal's objectives, design choices, and likely consequences.

This briefing is part of the EU Regulatory Observatory, an EPICENTER initiative that tracks and analyses EU regulatory activity using a combination of legislative monitoring and survey-based evidence on regulatory burdens and compliance costs across member states. The Observatory aims to complement legal analysis with empirical insights into how regulation is experienced by economic actors on the ground.

# The EU Regulatory Observatory's assessment of the digital euro

A. Simple score: 4.00

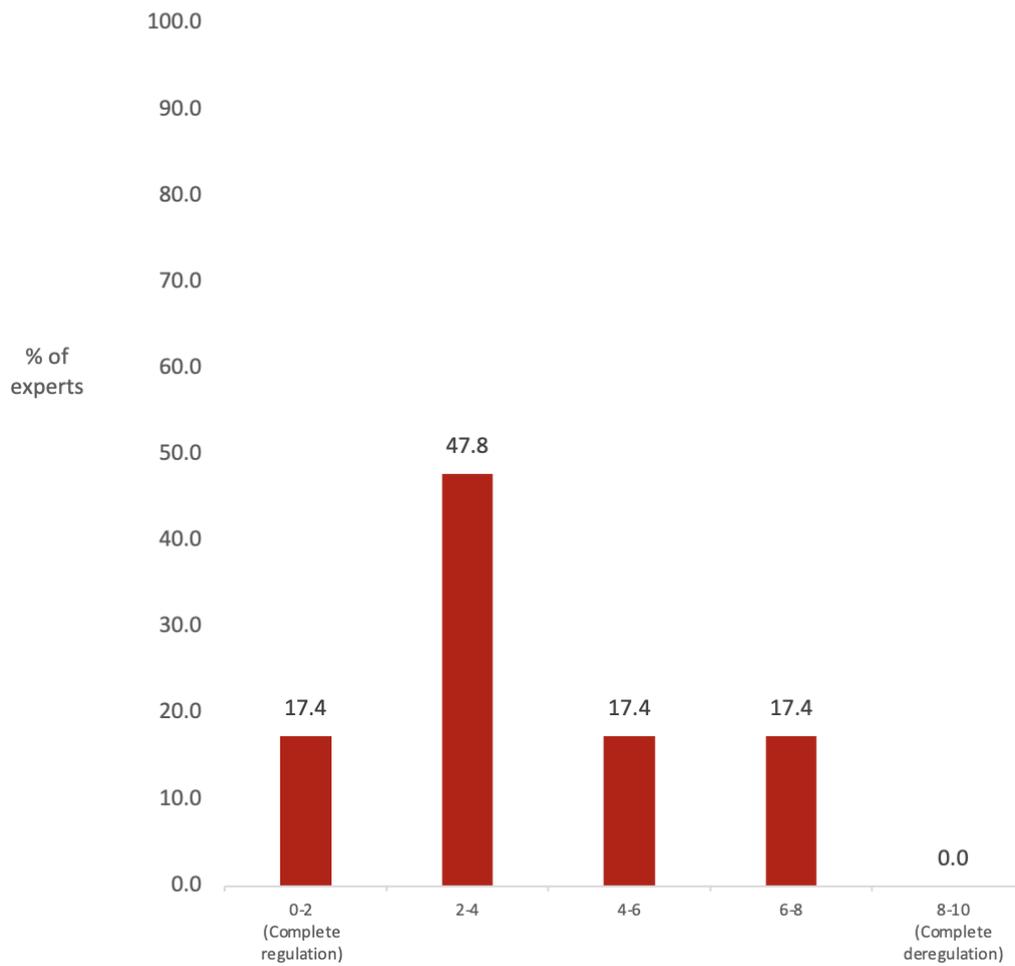


Figure 1A: Frequency distribution of average scores in the EU Regulatory Observatory's assessment of the digital euro.<sup>1</sup>

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<sup>1</sup> Note: The simple average does not account for the experts' confidence levels and the harmonisation of responses along the regulation–deregulation scale.

## B. Weighted score: 3.65

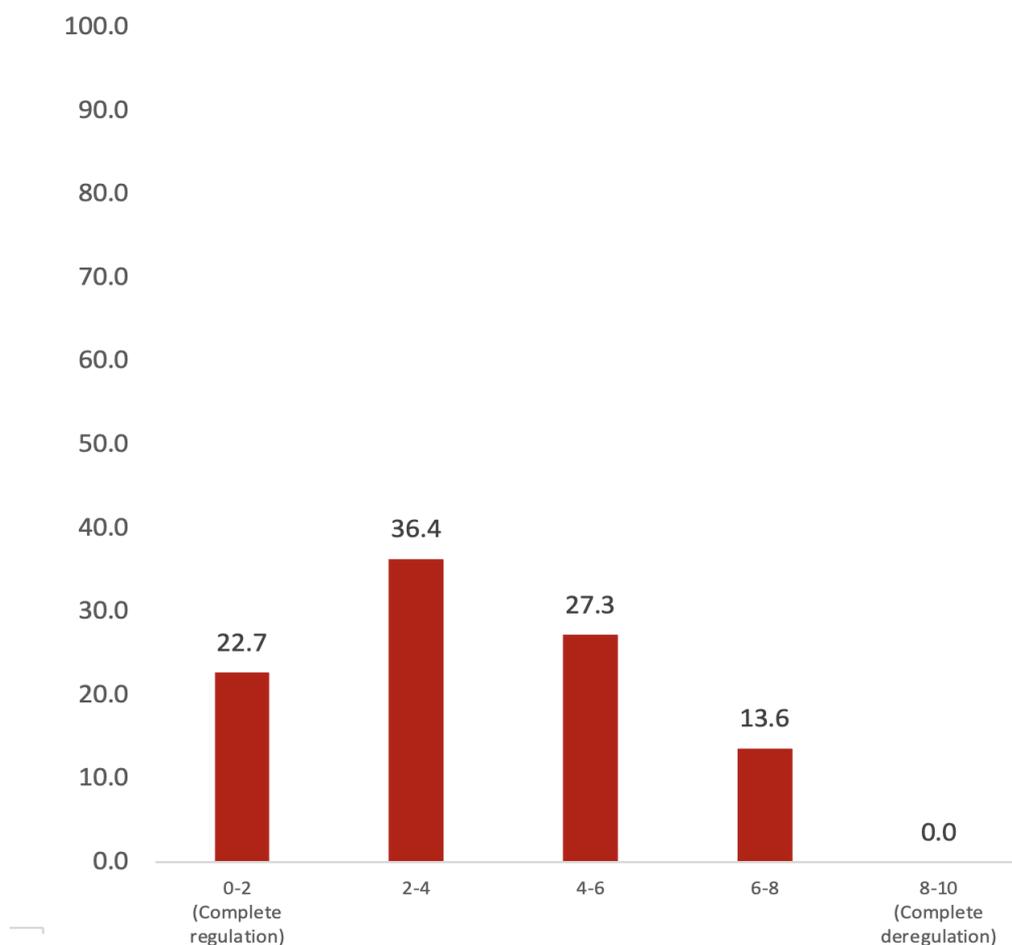


Figure 1B: Frequency distribution of weighted-average scores in the EU Regulatory Observatory's assessment of the digital euro.<sup>2</sup>

The distribution of responses shows a clear tendency among experts to view the digital euro proposal primarily as a regulatory rather than a deregulatory measure. The simple average score of 4.0 and the lower weighted score of 3.65 confirm this assessment, with the weighting by confidence showing that experts are more likely to see it as regulatory. Figure 1A shows that nearly half of the respondents (47.8%) provided a score in the 2-4 range, corresponding to a predominantly regulatory stance, while very few experts decisively locate the proposal in the pro-liberal end of the spectrum. The absence of responses in the 8–10 range also suggests that the panel does not perceive the digital euro as a strong step toward market deregulation.

Experts who assessed the digital euro proposal as more regulatory emphasised its character as a state-led intervention in an already competitive payments market. Many argue that the proposal introduces an ECB-controlled digital payment instrument with mandatory acceptance rules, holding limits, fee caps, and detailed operational requirements, thereby expanding the regulatory footprint of EU institutions and central banks. According to this perspective, however, the digital euro does not address a clearly identified consumer need and risks crowding out private payment providers and

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<sup>2</sup> Note: The weighted average accounts for both the experts' confidence levels and the harmonisation of responses along the regulation–deregulation scale.

fintech innovation. Privacy violations, potential future misuse, and surveillance capabilities were also concerns expressed by several experts, with many describing the initiative as a step towards the creation of a fully centralised form of money rather than a neutral technological upgrade.

Experts who considered the proposal more favourably acknowledged potential market-enabling effects. These respondents highlighted possible efficiency gains, reduced transaction costs, and the development of a public payment infrastructure to compete with dominant private providers such as Visa or Mastercard. However, even among these more favourable assessors, the digital euro is generally seen as a complement to existing systems rather than a liberalising reform, with doubts around its possible forced adoption, its long-term competitive effects, and potential to increase the government's share in the economy.

Overall, the panel's assessment suggests that the digital euro is best understood as a regulatory expansion, rather than a move toward deregulation or market liberalisation. While some experts recognise potential efficiency and competition-enhancing benefits, the dominant view is that the initiative increases centralisation, extends public control into retail payments, and introduces new constraints rather than removing existing ones.

## **Expectations, good and bad**

The fact that most of the experts surveyed classified the digital euro as a regulatory rather than deregulatory intervention raises substantive concerns about its necessity, design, and broader implications. These concerns go beyond implementation and spotlight fundamental issues related to privacy, institutional power, systemic risks, and the long-term evolution of monetary and payment systems in the euro area.

A first major concern is around privacy and individual autonomy. While the proposal and subsequent parliamentary discussions emphasise safeguards – particularly for offline payments – the introduction of a state-issued digital payment instrument inevitably expands the capacity for transaction-level data generation and oversight. Even where current designs aim to minimise data collection, digital systems differ qualitatively from cash in that privacy protections are contingent on legal frameworks, technical configurations, and future political choices. Once a digital infrastructure is established, safeguards can be modified more easily than the infrastructure itself. This raises concerns not only about current guarantees, but about how such a system could be repurposed over time, especially under conditions of political stress or shifting policy priorities.

A related concern is that the digital euro represents a significant concentration of power in the hands of public authorities. Unlike existing digital payment instruments, which are provided by competing private actors and embedded in plural market structures, a digital euro would be controlled by a single public issuer with regulatory and monetary authority. Even if initially limited in scope, such an instrument could, in principle, support features such as programmability, conditionality, or usage restrictions. Public debates have already touched on the possibility of digital money being linked to policy objectives – ranging from financial stability to environmental goals – with the potential for money to evolve from a neutral medium of exchange into a more direct policy tool (Hoang et al., 2023; Schueffel, 2025). In political systems with weaker institutional constraints, similar infrastructures could be used in far more intrusive ways.

A further concern relates to systemic resilience and operational risk. Cash currently provides an important layer of redundancy in the payment system: it functions offline, does not rely on complex infrastructures, and remains usable during cyber incidents, power outages, or technical failures. A shift toward a predominantly digital public payment instrument, particularly one with centralised elements, may increase the risk of single points of failure. While proponents often frame the digital euro as enhancing economic resilience (Cipollone, 2025), the resilience of payment systems derives from diversity and decentralisation rather than from uniform public infrastructures, however sophisticated.

The questions of necessity and proportionality are also central. Retail payment markets in the euro area are already characterised by low costs, rapid innovation, and a wide array of private solutions, including instant payments and mobile-based systems. Many of the remaining barriers to cross-border integration stem from regulatory fragmentation, legacy frameworks at the national level for various countries, or insufficient interoperability among private schemes. In this context, it is not evident that the introduction of a new public retail payment instrument is the least intrusive or most effective response. It is not unreasonable to question whether the digital euro addresses a clearly identified market failure or whether it risks duplicating functions already performed by existing infrastructures.

Another dimension of the debate concerns competition with decentralised monetary and financial technologies. Although rarely stated explicitly, the digital euro can be interpreted as part of a broader response by public authorities to the emergence of cryptocurrencies, decentralised finance, and alternative payment modes that operate outside traditional institutional frameworks. These technologies challenge established models of monetary sovereignty and financial intermediation. From a critical perspective, the digital euro may thus serve not so much to improve retail payments as to reassert public control over monetary infrastructures in the face of decentralised competition. This interpretation then questions whether innovation is being accommodated or pre-empted by the introduction of the digital euro.

Finally, the digital euro may have non-trivial implications for monetary policy and financial intermediation. Even with holding limits and design safeguards, making risk-free central bank money available to the general public could alter deposit dynamics, particularly during periods of financial stress. Expectations of safety and convertibility could amplify shifts from commercial bank deposits to central bank liabilities, complicating liquidity management and monetary transmission. Over time, this may blur the boundary between central banking and retail finance, potentially increasing political pressure on monetary authorities and entangling monetary policy with broader distributive or industrial objectives.

Taken together, these considerations suggest that the digital euro is not merely a technical upgrade to the payments system, but an institutional innovation with far-reaching consequences. The expert scepticism reflected in the survey results, therefore, extends beyond implementation details to deeper questions about governance, power, and the long-term structure of money in the euro area.

## Conclusions and policy recommendations

The digital euro represents a significant institutional intervention in the EU payments landscape, but its contribution to improving market outcomes remains limited and contested. While the initiative seeks to modernise the role of public money in an increasingly digital economy, it does so primarily by expanding the central bank's scope of involvement rather than by addressing structural barriers within existing payment markets. As reflected in the expert survey, the proposal is widely perceived as a regulatory extension rather than a liberalising reform. It introduces a new public payment instrument without clearly questioning whether the underlying problems it aims to solve are sufficiently addressed by existing market-based solutions.

It is important to note that the euro area already benefits from a broad range of efficient, low-cost, and innovative payment options, including cash, card-based systems, instant bank transfers, and mobile payment applications provided by private actors. Many of the objectives commonly associated with central bank digital currencies (CBDCs) – such as digitalisation of money, fast settlement, and cross-border usability – are already met by these means. Several experts therefore question whether the digital euro responds to a genuine market need or whether it duplicates functionalities that the private sector has already developed.

From a more positive perspective, the digital euro is generally viewed as a complement to existing systems rather than a transformative improvement. However, many worry about the privacy and monetary control threats it may pose. More fundamentally, the proposal reflects a broader trend toward monetary centralisation, raising questions about institutional power and the long-term evolution of money and monetary policy in the EU.

Looking ahead, it is recommended that EU policymakers prioritise strengthening competition, interoperability, and innovation within the already existing payment infrastructures instead of focusing on the deployment of a new public digital payment instrument. From a theoretical and historical perspective, more decentralised monetary arrangements tend to better constrain discretionary power and preserve the neutrality of money. A credible policy approach, therefore, is to remain open to decentralised and market-driven solutions, ensuring that public intervention does not block innovation or establish centralised control by default.

We make the following recommendations:

1. Reassess the necessity of a digital euro: To do this, policymakers must clearly demonstrate the existence of a market failure that cannot be addressed through regulatory reform, interoperability improvements, or private-sector innovation.
2. Prioritise proportionality over expansion: Limit the scope of the digital euro to clearly defined objectives and avoid design features such as broad mandatory acceptance or extensive programmability that could distort competition or expand state control.
3. Preserve competitive neutrality: Ensure that central banks do not act simultaneously as regulators and dominant market participants in retail payments and prevent the crowding out of private providers.
4. Strengthen existing payment infrastructures: Focus on removing regulatory and technical barriers to instant payments, cross-border interoperability, and private innovation before introducing new public instruments.
5. Guarantee robust and durable privacy protections: Design privacy safeguards that are not only technical but also institutionally entrenched, limiting the scope for future political reinterpretation or expansion of surveillance.
6. Safeguard monetary alternatives: Maintain cash and alternative payment systems as viable options.
7. Subject the digital euro to periodic review: Introduce mandatory sunset clauses or regular evaluations to assess its impact on competition, financial stability, and civil liberties, with the possibility of recalibration or withdrawal if objectives are not met.

*The EU should ideally refrain from implementing the digital euro, given the absence of a clearly identified problem that cannot be addressed through existing and evolving payment arrangements.*

Introducing an ECB-issued retail payment instrument risks transforming a narrowly technical initiative into a far-reaching shift toward monetary centralisation, with long-term consequences that are difficult to anticipate or reverse.

If the digital euro is nevertheless pursued, it should be strictly constrained in scope and design, with strong safeguards to preserve competition and individual autonomy, ensuring that the EU's monetary system remains resilient, plural, and aligned with liberal principles.

## Methodological Note

The results of the EU Regulatory Observatory's assessment are presented both as a simple and as a weighted average in order to (a) calibrate the different perceptions and biases of the experts on the regulation–deregulation scale, (b) take into account the experts' confidence in their area of expertise, and (c) take into account the extent to which the rating is informed by the expert's knowledge of the sector.

This process involved three key steps:

1. Harmonising perceptions and reducing biases: The experts were asked to rate 40 hypothetical scenarios (vignettes) in each policy area (King et al. 2004; Pemstein et al. 2020) to evaluate whether the policy is moving towards more regulation (anti-liberal) or more deregulation (pro-liberal). To ensure comparability across respondents, we used a standardised scale of 0–10 where:
  - 0 = complete regulation (anti-liberal stance)
  - 5 = no change/status quo
  - 10 = complete deregulation (pro-liberal stance)

To improve interpretive accuracy, vignettes were designed separately for eight distinct policy areas in which liberalisation may take different forms:

1. Digital platforms
2. Environment and emissions
3. Trade policy
4. Common fisheries policy
5. Common commercial policy
6. Agricultural policy
7. Energy markets
8. Consumer protection

Each vignette set consisted of five imaginary policy scenarios ranging from strongly regulatory to strongly liberalising<sup>3</sup>. These served as scale anchors, allowing for the standardisation of experts' ratings across and within areas.

2. Experts' rating: The experts evaluated the EU regulations using the same scale.
3. Experts' confidence level: For each regulation, the experts reported their confidence regarding their topic-specific expertise and the extent to which their rating was informed by their expertise (both on the 0–10 scale).

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<sup>3</sup> While the assignment of ideal scores is necessarily subjective to some extent, we aim to operate within the boundaries of mainstream policy consensus to ensure broad acceptability and analytical clarity. Ratings that deviate substantially from common interpretations are reviewed and revised accordingly, based on expert feedback.

The final weighted average score is computed as follows.

### Rescaling procedure

Let  $X_i$  denote the raw rating given by expert  $i$  to the vignette set, and let  $Y$  denote the pre-specified 'true' rating of the vignettes. For each expert, we estimated a simple linear regression model:

$$Y = a_i + b_i \cdot X_i$$

The resulting coefficients  $a_i$  (intercept) and  $b_i$  (slope) capture the expert's idiosyncratic use of the response scale.

Subsequently, all real directive ratings provided by expert  $i$  were adjusted as follows:

$$Y_{ij} = a_i + b_i \cdot X_{ij}$$

where  $Y_{ij}$  is the standardized liberalisation score assigned by expert  $i$  to directive  $j$ , and  $X_{ij}$  is the original raw score for that directive.

### Confidence and expertise weighting

To incorporate experts' self-assessments of their confidence, we applied a calibrated confidence-weighted adjustment to each expert's rating, ensuring that the evaluations are not excessively distorted. Traditional linear weighting methods tend to disproportionately suppress scores with moderate confidence, pulling down the mean rating significantly. We followed this weighting method to preserve the core evaluative signal of the base rating – especially for moderately confident assessments – while still rewarding higher confidence and down-weighting uncertain responses in a controlled and proportional manner.

Let the base score provided by expert  $i$  be defined as

$$S_i = \text{Intercept}_i + \text{Slope}_i \cdot \text{Expertise}_i$$

where Intercept and Slope are derived from the vignette results of each participant to harmonise the regulation–deregulation scale, while Expertise is the self-rated domain knowledge on a scale of 0–10. The adjusted (final) score is then computed as

$$\hat{S}_i = S_i \cdot 1 + \alpha \cdot \frac{C_i - \bar{C}}{C_{\max}}$$

where  $C_i = C_i^{\text{policy}} + C_i^{\text{content}}$  is the sum of the expert's two confidence ratings (each on a 0–10 scale).  $\bar{C} = 10$  is the neutral midpoint of the total confidence score (used as the baseline),  $C_{\max} = 20$  is the maximum possible combined confidence, and  $\alpha$  is a gain parameter controlling the sensitivity of the adjustment to confidence (e.g.,  $\alpha = 0.25$ ).

This adjustment ensures that if  $C_i = 10$ , then  $\hat{S}_i = S_i$  (no change); if  $C_i > 10$ , then  $\hat{S}_i > S_i$  (slight upward adjustment), and if  $C_i < 10$ , then  $\hat{S}_i < S_i$  (mild discounting).

The choice of  $\alpha$  determines the extent to which confidence modifies the score. In our case, we set  $\alpha = 0.25$ , such that a fully confident response ( $C_i = 20$ ) is scaled up by 12.5%, while a minimally confident one ( $C_i = 0$ ) is scaled down by 12.5%. This creates a bounded influence window, avoiding extremes while maintaining relative differences.

This method draws on soft-threshold weighting methods described in the expert assessment literature (e.g., Belton and Stewart 2002; Cooke 1991) and achieves the goal of respecting expertise without allowing a few confident respondents to disproportionately skew the aggregate outcomes.

## Our panel of experts

The EU Regulatory Observatory panel comprises 39 experts, representing more than 25% of the current EU member countries. Most of them (62%) hold a PhD in their area of expertise. The majority (66.7%) work as researchers or policy advisors in think tanks, government bodies, or non-governmental organisations, while one out of five (20.8%) hold tenure track or tenured academic positions, as lecturers, associate professors, or professors; the rest of the experts (12.5%) are researchers in academic institutions (including PhD candidates and postdoctoral fellows). Two-thirds of the panel (66%) have more than eight years of professional experience.

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