

The digital euro and its geopolitical ambitions



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Abstract

The digital euro offers Europe the opportunity to enhance the geopolitical strength of the euro and to establish a global payment system based on European values. To truly realise this potential, policymakers should consider designing the digital euro as a globally accessible means of payment that can be used by all economic agents around the world for instant and secure settlements. The current proposed design, with usage limits and access restricted to European residents, significantly undermines this potential. This policy brief analyses some aspects of the geopolitics of digital currencies and a critical weakness of the current tiered monetary system. It proposes policy adjustments that can enable Europe to fully realise the geopolitical potential of the digital euro.

Introduction

European policymakers are increasingly positioning the digital euro as pivotal to strengthening Europe's strategic autonomy (Cipollone, 2025; Lane, 2025a, 2025b). At present, Europe's digital payment system faces significant vulnerabilities. Approximately 65 percent of card payments in the eurozone are processed by US-based companies, such as Visa and Mastercard. In addition, consumers in 13 of the 20 eurozone countries have no domestic digital payment solutions for retail transactions. Even where national payment schemes exist, cross-border transactions rely on foreign intermediaries. In addition, mobile payment platforms are largely dominated by non-European companies such as Apple Pay, Google Pay and PayPal and account for around 10% of retail transactions. This dependence exposes European economic agents to substantial risks, including high transaction fees, reduced control over (sensitive) transaction data, and potential vulnerability to foreign political interference.

The rapid growth of non-European payment platforms and stablecoins exacerbates this precarious situation. For example, stablecoins remain overwhelmingly dollar-denominated (99%). Lane (2025a, 2025b) and Cipollone (2025) explicitly warn against further reliance on non-European payment mechanisms, highlighting the risks to financial stability and autonomy.

While the digital euro is thus positioned as Europe's strategic countermeasure, with promising features such as offline transactions and independent operation by European providers, its geopolitical potential is significantly reduced by two limitations of the proposed design. First, the restrictive holding limits (€3,000 for individuals and zero for merchants) severely undermine its competitiveness. Second, restricting access to eurozone residents only limits the potential for global adoption. Competitors, including stablecoins, mobile payment providers and money market instruments, do not impose such restrictions.

To fully realise the geopolitical potential of the digital euro, this policy brief first briefly discusses some aspects of the geopolitics of digital money and a critical weakness of the current tiered monetary system. Subsequently, the potential of the digital euro is examined in more detail, and finally, five policy recommendations are made.

The geopolitical challenge I: Dollar dominance

For more than eighty years, the US dollar has held an unrivalled position as the world's key currency. This status provides the US with significant structural advantages, including reduced borrowing costs and the capacity to impose effective financial sanctions. The dollar's dominance is actively reinforced by the US Treasury and the Federal Reserve through the support for a global network of US banks, the large-scale issuance of dollar-denominated safe assets, and the establishment of generous central bank swap lines. In addition, the Clearing House Interbank Payments System (CHIPS), based in New York, facilitates high-volume global transactions and further entrenches the dollar's role at the core of the international financial system.

Currently, the dollar accounts for 57% of foreign exchange reserves, 54% of global trade invoices and is involved in 88% of all foreign exchange transactions.¹ The offshore Eurodollar market is valued at around \$13 trillion. European banks are heavily dependent on short-term dollar funding, which accounts for 17% of their total funding structure (Klaus & Mingarelli, 2024). Moreover, half of the US currency in circulation, amounting to more than \$2 trillion, is held outside the US (Bertaut et al., 2023).

The second Trump administration brings changes. On the one hand, the administration is actively seeking to maintain and potentially expand the dollar's global dominance in payments by supporting dollar-denominated stablecoins, which facilitate cheap and fast international transactions. On the other hand, the administration appears to have the

¹ According to the Dollar Dominance Monitor of the Atlantic Council:
<https://www.atlanticcouncil.org/programs/geoeconomics-center/dollar-dominance-monitor/> (accessed May 9, 2025).

objective of weakening the dollar. Recent policies have created considerable uncertainty and distrust in established mechanisms that underpin the dollar's position as the key currency, such as the availability of swap lines (Sahasrabudde, 2025). This policy unpredictability, coupled with the weak US fiscal outlook, could weaken international confidence in the dollar as global investors favour stable and fiscally sound jurisdictions.

In addition, the increasing use of financial sanctions as a geopolitical instrument in recent decades has exacerbated global discontent with the dollar-centric financial system. Between 2000 and 2021, the use of financial sanctions increased by over 900% (U.S. Treasury, 2021), a trend that accelerated after Russia invaded Ukraine (Bilotta, 2024). This weaponisation has incentivised others to seek viable alternatives to the dollar-based monetary architecture.

The geopolitical challenge II: China's monetary ambitions

In the aftermath of the 2008 global financial crisis, the People's Bank of China (PBoC) called for a fundamental reform of the international monetary system, advocating the creation of a super-sovereign reserve currency (Xiaochuan, 2009). When this proposal failed to gain international traction, China intensified its efforts to develop an alternative infrastructure to the US-dominated system. At the heart of this strategy is the development of the digital yuan (e-CNY) and a sophisticated electronic payment system. In parallel, China has established the Cross-border Interbank Payment System and has taken a leading role in multilateral central bank digital currency initiatives, most notably the mBridge project. Collectively, these initiatives aim to build an autonomous monetary and payment infrastructure that reduces global reliance on Western-controlled systems such as SWIFT, CHIPS, and Fedwire (Rosa & Larsen, 2024).

China's monetary initiatives are strategically integrated into its broader geopolitical ambitions, such as the Belt and Road Initiative and the Digital Silk Road, reflecting Beijing's overarching goal of expanding its international autonomy and geopolitical influence. If the United States continues to pursue unpredictable and inconsistent policies, and if Europe fails to significantly enhance the global appeal of the euro, China could exploit the resulting geopolitical vacuum. In this scenario, not only China's traditional allies, but also other authoritarian regimes, developing economies and the world's estimated 1.4 billion unbanked could increasingly turn to China's monetary infrastructures and underlying technologies, whether voluntarily or due to a lack of viable alternatives (Rosa & Larsen, 2024).

A critical weakness of the current monetary system

The case for alternative infrastructures, including the digital euro, becomes more compelling when one examines a critical weakness of the current monetary system: the fact that it is a tiered system makes payments inefficient. Central bankers typically present this system, comprising central bank money and private bank money, as optimal. They emphasise the fundamental role of central banks in maintaining trust and stability, complemented by the technological innovation and operational efficiency of private banks (e.g., Carstens & Nilekani, 2024; Lane, 2025a, 2025b).

The tiered system is a legacy of the industrial era, designed at a time when instantaneous cross-border settlement was technically impossible. Today, international payments remain comparatively slow, expensive, and cumbersome (Demertzis & Lipsky, 2023; Rosa & Larsen, 2024; Carstens & Nilekani, 2024; Bilotta, 2024). This inefficiency is particularly pronounced for transactions involving emerging markets. For example, the average cost of sending a cross-border remittance remains at 6.3% and the processing time can be days. The contrast with other sectors is striking. Global communications are now almost instantaneous—an email can cross the globe in a fraction of a second.

The core issue lies in the tiered system: international payments often involve multiple private banks, including correspondent banks, which facilitate such transactions, as well as central banks in different jurisdictions. Each participant introduces additional complexity, costs, and risks. Because of this critical weakness, market-driven innovations such as cryptocurrencies and stablecoins have emerged to offer faster, cheaper, and more streamlined alternatives to legacy infrastructure. There is a chance that a new digital infrastructure will emerge, whether developed by governments in China and Europe, or by a private company like Stripe.

Potential of the digital euro

In contrast to the current system and market-driven innovations, a universally accessible digital form of public money, such as the digital euro, could enable the instant, secure and final settlement of payments across borders. By using central bank money and a digital infrastructure, such a system would eliminate the settlement, liquidity and credit risks inherent in today's fragmented and tiered payment systems. It could also significantly reduce the complexity and regulatory burden associated with payment processing. This would allow payment service providers to allocate resources to critical compliance functions, particularly those related to customer due diligence, such as Know Your Customer and Anti-Money Laundering obligations.

European central bankers often refer to the digital euro as the natural evolution of physical cash into the digital domain. Key features of cash are that its design is open, and all economic actors have access to the same tier. The digital euro could significantly enhance the global role of the euro, provided it is designed with openness in mind. This would require a framework that allows access for users worldwide, mirroring the historical global acceptance of the US dollar. The US, after all, simply permitted foreigners to use the dollar outside its borders, in both physical form (greenbacks) and intangible form (Eurodollars).

Digital euro transactions would offer instant settlement, significantly reducing the risks traditionally associated with international payments. Open access and real-time processing would enable entrepreneurs worldwide, including in less developed markets, to participate easily in global trade. European merchants would similarly benefit from greater accessibility for international consumers using digital euros. For European financial institutions and fintech companies, the digital euro infrastructure could provide a foundation for a new wave of innovation driven by programmable money. Programmability, conditionality, and composability (i.e., the ability to combine smart contract functions) could streamline supply chains, automate regulatory compliance, and facilitate more efficient cross-border financial flows. A wide range of services—from basic payments to the issuance and exchange of tokenised debt and equity contracts—could be built atop the digital euro ledger, catalysing the development of a more integrated and competitive European financial ecosystem.

Policy recommendations

To realise the geopolitical potential of the digital euro, European policymakers should recognise the broader implications of monetary sovereignty, the global power dynamics and the opportunities offered by digital technologies.

Key policy priorities are:

- A. Substantially raise or eliminate holding limits: The current limits on individual holdings of digital euros significantly limit the attractiveness of the digital euro. Raising or removing these limits would be a necessary step to increase its usefulness for citizens, investors and institutions.
- B. Ensure global accessibility: Restricting access to euro area residents undermines the potential of the digital euro as a truly international means of payment. Extending access to non-residents, while maintaining safeguards against illicit use, would strengthen Europe's position in the international monetary system.
- C. Strengthen the international role of European financial institutions: European banks and fintech firms should be actively involved in the global promotion and application of the digital euro. Public authorities should encourage innovation on the digital euro ledger, including programmable financial products, cross-border services and smart contracts, to strengthen Europe's position.
- D. Deepening interoperability and multilateral co-operation: Cross-border usability depends not only on technology but also on trust and cooperation. It is essential to ensure the compatibility of the digital euro with other CBDCs and other payment systems.

- E. Explore complementary strategies to strengthen the international role of the euro: A geopolitical digital euro strategy needs to be embedded in a broader agenda to enhance the international position of the euro (e.g., van 't Klooster & Murau 2025). This includes, among others, promoting the issuance and liquidity of safe euro-denominated assets, supporting mechanisms for offshore euro-denominated credit creation, expanding the use of the euro in global trade and commodity pricing, and reducing structural dependencies on dollar-denominated funding, reserves and swap lines.

Policy Recommendations

A. Substantially raise or eliminate holding limits on digital euros.

B. Ensure global accessibility of the digital euro.

C. Strengthen the international role of European financial institutions in the global promotion and application of the digital euro.

D. Deepen interoperability and multilateral cooperation to ensure the compatibility of the digital euro with other CBDCs and payment systems.

E. Explore complementary strategies to strengthen the international role of the euro.

Conclusion

To fully realise the geopolitical potential of the digital euro, European policymakers should consider making it globally accessible and free from restrictive holding limits. These measures would not only mitigate the risk of increasing dependence on US-dominated infrastructures and counterbalance China's rising monetary ambitions but, more importantly, lay the foundations for a future-proof digital monetary architecture, anchored in European values and governance.

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